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**HOW TO BUY
LIFE INSURANCE**

How To Buy Life Insurance

By

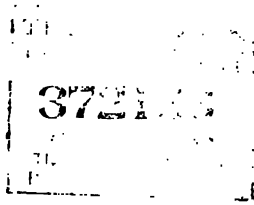
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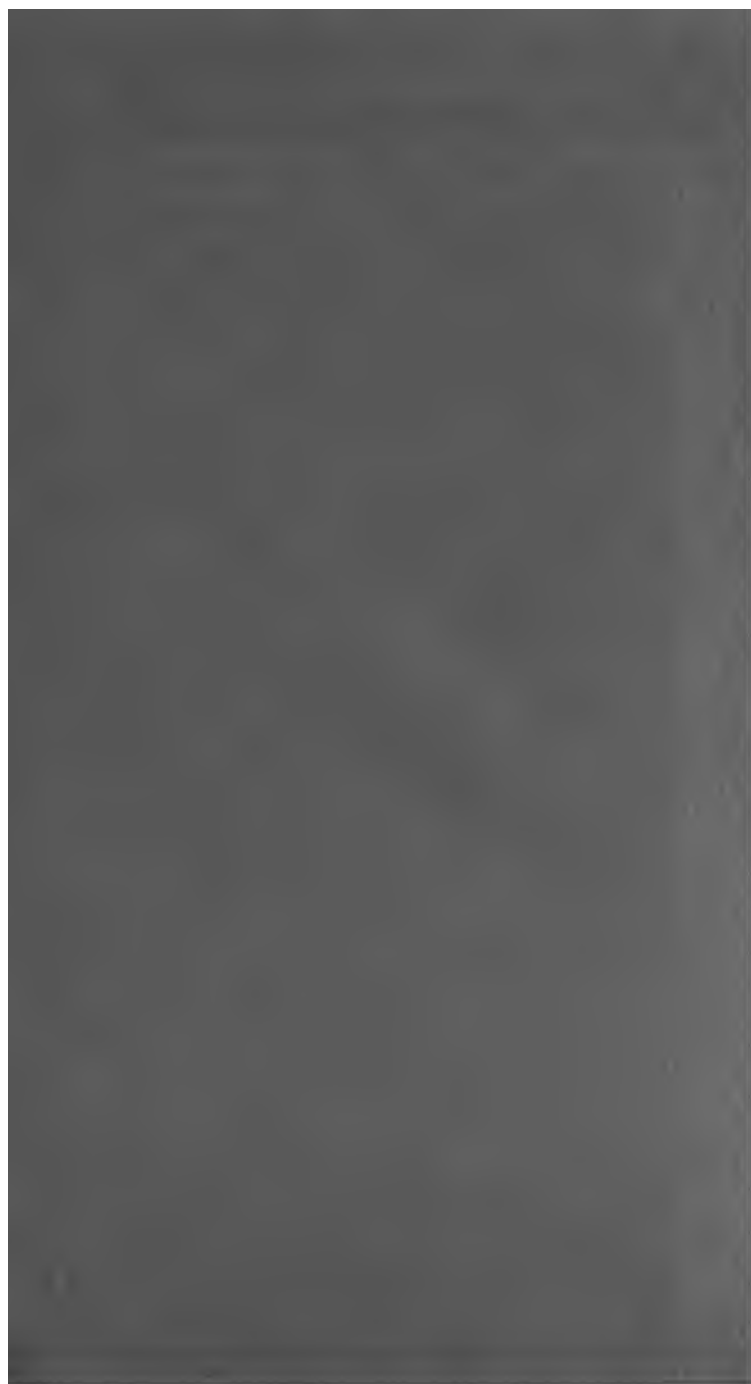


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ROY W. B.
DUBIN
VIA RAIL





PREFACE

IN bulk no subject has more literature than Life Insurance. Its printing bills exceed the cost of the government printing office in Washington. Its prospectuses, its pamphlets, its hand-books and its statements have been broadcasted everywhere and have found their way to every home. There is no town without its active, keen life insurance agent presenting its manifold policies and attractive literature to the public.

But all this is from the same point of view—the agent's and the company's, not the policy holders.

It is time that life insurance was considered solely from the point of view of the policyholders, actual or prospective, regardless of the personal interests of the agents or officials. A necessary economic distinction exists here. The policy holder is the source of all the revenues. The life insurance company produces nothing. It merely collects and distributes. Whatever it expends except in payments to the policy holders necessarily comes from the money they pay in and to that extent diminishes what they receive.

PREFACE

There can be no "dividends" without a preceding overcharge. There can be no profits without some policy holders paying them. There can be no salaries or commissions unless their amounts come out of the premium payments or the investment receipts.

No book can properly advise a policy holder in what company to insure or to what amount. It can only tell him the facts and put him in a position intelligently to decide for himself.

The advantages of intelligent life insurance are likely to be overlooked in the present flood of disclosures of corrupt management. Such evils are a conclusive argument against bad life insurance. They are no reason for not insuring at all.

The author seeks to avoid both condemnation and eulogy and simply to present the facts and to emphasize the conclusions of his own mind that every man who has a family dependent upon him should give them that protection which sound, pure life insurance affords.

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**HOW TO BUY
LIFE INSURANCE**

CHAPTER I

WHAT IS LIFE INSURANCE?

INSURANCE is the agreement to pay a determinable sum on the happening of a contingent loss. In fire insurance this contingency is the destruction of property by fire. In maritime insurance it is shipwreck or loss or damage by sea. In accident, burglary, lightning, plate glass and a dozen other forms of insurance the contingency required to make the payment eventuate is well understood and indisputable in meaning.

In like manner life insurance is and can be nothing except an agreement to pay a determinable sum on death. A pure endowment is no more life insurance than is an annuity, or a policy against loss by fire. It is in the varied departures from this essential definition that policies in scores of forms have been issued and called life insurance policies while the real life insurance was only part of the contract and usually not the most costly or even remunerative part. It is of course possible to combine in one contract life insurance and many other things. Accident insurance

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policies usually combine insurance against a variety of accidental happenings. To do this with a life insurance policy is confusing both to the policy holder and to the beneficiary. The policy holder is unable to distinguish between the various benefits promised him, what is the cost of each and what are the advantages of each because they are all combined in one involved contract. It is thus necessary first to consider life insurance apart from its collateral or extraneous contractual provisions.

Insuring against the financial loss resulting from death is not modern. It is as old as insurance against loss by fire and by the perils of the sea. Originally the same companies sold all kinds of insurance. The modern prototype of this kind of general insuring is English Lloyds which sell insurance and indemnity contracts against all manner of losses arising from any possible contingency. Any one with an insurable interest can there contract for an avoidance of a contingent loss.

This form of universal insurance by one company or association is not found in the United States. The law prohibits a fire insurance company from selling life insurance policies as it prohibits a savings bank from selling life insurance policies. The law should also prohibit a life insurance company from selling anything except life insurance policies, and probably

in the course of time the same public sentiment in regard to public safety which has forbidden the commingling of property risks with personal life risks will also lead to the prohibition of commingling investments with life insurance protection.

In its economic effect insurance in whatever form is simply a distribution and equalization of the loss. When a man's property is destroyed by fire the loss which if it were not insured would fall upon him alone, is distributed by means of his fire insurance policy. He has paid only his premiums and he receives an amount much in excess of what he has paid. The many more numerous individuals who have paid premiums and who have had no fire, pay his loss by their contributions. What they have received was not money but protection.

No insurance company could long do business if its premium receipts did not exceed its payments for losses. In this respect life insurance does not differ from any other form of insurance and the principle is the same whether the company is mutual or stock, and whether the method of insurance is a fixed premium, assessment, a changeable premium, fraternal or what not. The company is merely a means of collecting from the general community the funds from which to pay the losses and an additional amount sufficient for the expenses of conducting the business.

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Any insurance company of whatsoever nature conducted on any other plan than this must fail, and the frequent insolvencies of earlier companies which tried many other systems are proof of the folly of a further continuance of such fatally resulting experiments.

Life insurance differs from most other forms of insurance in the certainty that the contingent loss will eventuate. All men die. Every policy payable at death matures sooner or later. A man might go on paying premiums against fire for an indefinite period with no assurance that his property would burn. There is no assurance of shipwreck or accident or burglary or of the other contingencies for which companies to insure against loss by them have been founded. Death, however, is a certainty. Also the nearness of that certainty increases year by year. The same property may be as good a fire risk ten years hence as it is today, but a man steadily year by year becomes a worse life insurance risk. The loss by death is also total. There is no argument in mitigation of damages and no possibility of setting off salvage or an apportionment of losses or a similar claim in diminution of the amount of payment.

All these certain factors should make life insurance the most simple, intelligible and complete of all forms of insurance. They should make the facts of the necessary payments in the shape of premiums and the

final returns to the policy holder's beneficiaries more exact and readily understandable than any other form of insurance payments. Yet the contrary is the fact. There are standard fire policies and maritime policies, but no standard life insurance policies. There is a standard classification of property risks but only in one or two companies is there a grading of life risks except the age gradations.

Why life insurance is more complicated and less intelligible, more given to dispute and bad feeling than any other form of insurance, it is not within the scope of this book to discuss in detail. The wrongs of the policyholders have been made public in successive exposures and public investigations until it may be assumed as proven beyond the need of further testimony or detailed argument that the policyholders in general have not received what they should, that they have paid too much for what they do get and that a new system of intelligent life insurance is bound to arise. To enlighten the policyholder so that his intelligent self interest may be the strongest compelling force in driving out of existence bad life insurance and in continuing and increasing the volume of good, pure life insurance is in itself sufficient scope.

It is thus essential that the policyholder or the man seeking protection for those dependent upon him after his death should keep clearly in mind the fundamental

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proposition that a life insurance company produces nothing and in no way adds to the wealth of the community. No man can make a profit by insuring his life in the sense that the farmer produces a profitable crop or the storekeeper has a profitable year or the manufacturer makes a profit on the goods which he produces. There is no raw material to which labor is added to sell as a manufactured article. There are no crops. There are no trades or business enterprises with which life insurance properly has to do. Its investment income will be considered in a further chapter. It is well however in preliminary to fix the definite idea that the income from the investment returns on life insurance assets is only a moderate rate of interest on the higher premiums which the level premium policyholder pays in his earlier years to avoid the payment of higher premiums in his old age.

As no life insurance company can continue solvent if its income does not exceed its death payments, so no life insurance company can continue in business unless its premium receipts and investment interest do not amount to a sum sufficiently in excess of its death payments to pay also the managing expenses of the company. That means that the policyholders as a class cannot receive back as much money as would result from the investment in a savings bank of the same sums which they have paid in premiums.

The delusion that life insurance is a profitable investment has been fostered and falsely wide spread by the managers of the great companies which have profited by deceiving their policyholders. Life insurance is not an investment. It cannot possibly be. It is a protection and like fire insurance protection or any other form of insurance protection it must be paid for. Its cost is the difference between what the premiums put in a savings bank at compound interest would amount to and what the policyholders receive. That difference in certain forms of insurance, such as industrial insurance, has been in practice over half and in some companies two-thirds or more. Even in the best and most honestly managed life insurance companies that cost has been over ten per cent. and it averages twenty-five to thirty per cent.

The notion that any one can get life insurance for nothing is false and impossible. Any agent's statement or life insurance literature which pretends to say that under any form of policy; life insurance does not cost the policyholder a substantial sum of money, is an out-and-out falsehood. Sensible men who would not expect to get a suit of clothes or a book or food, or any other good thing, without paying its value, are deceived into the purchase of forms of so-called life insurance policies which in reality cost them several times as much for the life insurance protection as an honest

policy, but which the agent or the company's literature has deceived them into believing give them life protection without their paying any money for it.

If this fundamental truth had been hammered into the conviction of every possible policyholder years ago, life insurance would long since have become as simplified as fire insurance, and it is only by the general acceptance of this fact that real life insurance reform can become permanent.

Of the eighty million people in the United States one in five has some form of life insurance. The aggregate of this insurance is over fifteen billion dollars. The assets of the companies known as straight life or legal reserve companies amount to two and a half billion dollars, of which the three largest companies, The Equitable Life Assurance, the New York Life and the Mutual Life, all of New York City, hold about half in their treasuries. The people of the United States pay for life insurance every year over half a billion dollars. The total receipts equal the whole cost of the government of the United States, all its departments and all its branches.

Although over half a billion dollars annually find their way from the savings of the policyholders to the treasuries of the life insurance companies, hardly half that sum is annually repaid to the policyholders or their beneficiaries. The expenses of management

are about half the amounts which the policy-holders receive. The additions to the assets somewhat exceed the expenses of management. The detailed figures for many of the companies are given in the statistical appendix. The general statement conveys only an approximate idea of the magnitude of the business of life insurance.

Should the accumulations of wealth by life insurance companies continue at the rate of the past five years, it will not be long before they will exceed in value the railroad systems of the United States or the capitalized industries. They will be the largest aggregations of capital that the world has ever known. They are at present the largest aggregations of floating capital, that is of capital not tied down to one spot, like a farm or a factory or a railroad track. Their power will be all the greater because of their ductility.

Of the different forms of life insurance companies it is only the companies which sell level premium policies which accumulate vast assets. Assessment, fraternal and benevolent associations do a large insurance business, but where the premiums increase from year to year with the age of the insured, there is no occasion to accumulate a reserve approachable in size to the requirements of "investment" insurance.

As explained above, life insurance in whatever form is simply the collection from the mass of the insured of

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sums sufficient to meet the annual death losses together with the expenses of management. In an assessment plan the amount required to meet the death losses as they occur is levied upon the contributing policyholders together with an additional assessment for the cost of management. In the level premium companies the same premium is annually collected, the rate varying according to the age at which the policy was taken, so calculated that the amount of the premiums with the interest on the excess in the early years will be sufficient to pay all death losses as they occur together with the expense of management. Term insurance is payable only should the policyholder die during the term for which the policy is issued. Its premium rate is either a level premium for the term of the policy in which case there is an excess charge during the early years, but not so great an excess as in a straight life policy, or it is a rate increasing year by year in which case no reserve at all is required.

Did life insurance policies contain no other promise than the agreement to pay a fixed sum should the policyholder die during the term of the policy, all these premiums, whether on the assessment plan or level premiums or term insurance, would be reasonably uniform and regularly understood. But it is only a minority of policies which do not contain other provisions, promises and alternatives. Every one of

these which does anything else than insure against death adds to the cost and complications.

Although individual life is most uncertain, the law of averages enables the accurate knowledge of the time of death of the average man. A million men picked at random die with mathematical precision at their appointed times. It cannot be predicted what individuals will die and when, but it can be definitely concluded how many individuals out of the million will die at the age of 21, or 40, or 60, or 90. The duration of human life has been slightly increasing, and from the period of one generation to the other the deaths at certain ages vary somewhat, but the variation is not great and its mathematical determination is definite.

The causes of death have changed much more than the number of deaths. The prevention of contagious diseases has almost eliminated death from such plagues as swept the civilized world in the middle ages, but the deaths from nervous and brain diseases have increased. The strain of modern life has supplied new diseases to kill men off almost as rapidly as the hardships of pioneer life. Nature still clings to the scriptural period of three score years and ten. The most intricate actuarial tables give the average young man of 21 almost the same span of life that the Old Testament allots to him. The variation is only fractional.

CHAPTER II

ITS BENEFITS AND DEFECTS. A PROTECTION, NOT AN INVESTMENT.

FINANCIALLY considered, life insurance in itself can do only one good thing and that is to pay the amount of the policy to the beneficiaries of the policyholder at his death. It has other benefits of great value which are not included in the policy and which cost the policyholder nothing. These are the moral and physical habits which life insurance improves. Men who insure their lives are as a class more moral, more thrifty and more healthy than the average of the community. The same family affection and forethought which induced them to take out life insurance also tends to make them better husbands and fathers and better citizens. This is not the exclusive result of a life insurance policy, because regular savings invested in a home or put in a savings bank or regularly laid aside in other ways for old age also inculcate habits of thrift and economy. But in life insurance there is the more unselfish motive of personal deprivation for the sake of the loved ones after their support is gone than in the maintenance of

a fund which can be drawn upon and returns an income during life.

It is on these moral and personal grounds that the strongest arguments in favor of life insurance are based. Considered solely as an investment, life insurance would have little argument in its favor compared with savings banks, mortgages or conservative stocks and bonds. As a protection there is every reason for the purchase of a life insurance policy, not for its interest returns or for profits, because there can be no interest returns or profits relied upon, but simply and solely because it protects dependent women and children from being left without support when the mainstay of the household supplies is taken away.

The average man of the age of 21 will live at least 40 years. At 30 his expectation of life is over 35 years, at 40 over 28 years, at 50 over 20 years, and at 60 he may still expect to live 14 years longer. If all men were the average man, and if every man were to live the exact number of years and die at the exact time of the average man, to buy a life insurance policy would be a waste of a large proportion of the money paid for it. If every man had a definite assurance that his life would be of the average length, life insurance would have no such strong occasion for existence.

Of any number of men taking out policies at any given age a certain proportion of them dies the first

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year, a little larger proportion the next year, and the percentage of the survivors dying every year gradually increases until after seventy the proportion of deaths is ten times as numerous as in youth. The men who die in early life receive their full life insurance. The amount paid their beneficiaries is the same as if they had lived fifty years and paid in fifty premiums instead of one. The payments are the same to all.

It is erroneously asserted in some life insurance literature that these men who die early and whose beneficiaries receive a sum many times the amount of their premiums, have profited by their life insurance. As well might it be claimed that the man whose house burned down and who received his fire insurance had profited by the fire. The life insurance policy holder is dead when his policy matures. There can be no profits to him. To claim that there is a profit to his wife and children is to put a lower value on his life than the face of his insurance policy and to assert that the number of dollars which his family has received is better for them than to have their husband and father alive with them contributing financially to their support and adding happiness and comfort to their lives.

Life insurance is a benefit. That is indisputable. But so long as it is payable only on death it can not accurately be called either a profit or an investment

return. It is an essential feature of all insurance that under no circumstances shall the insured profit by the loss which causes the policy to mature. No fire insurance company will knowingly pay a larger amount than the actual financial loss by fire. No maritime insurance or burglary or property insurance company of any kind will contract to make the transaction profitable to the policyholder. Neither can nor does life insurance make any such contract. The number of policies whose amount invested would return a larger income than the annual premium are many, but the policyholders who have policies which would return a larger income than their total earning capacity are almost nil. No man can buy more life insurance than he can pay for. No man can regularly pay for more life insurance than his surplus income over his living expenditures will meet in annual premiums. This inevitable limitation reduces the amount of life insurance possible in any individual case to the policyholder's income or earning capacity over and above the necessary expenses for his and his family's support.

Thus the amount of the insurance on any man's life cannot, when extended over a series of years, exceed his saving capacity. Life insurance therefore, cannot replace earning capacity but saving capacity, and its receipts cannot compensate the widow and

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orphan even in the limited financial sense for the loss which is necessary before the death payment matures.

What life insurance should do and can do as nothing else can, is to guarantee the continuance of the policyholder's saving capacity no matter whether he dies the next day or the fiftieth year after taking out his policy. No investment can do this. No man can invest more than he has. Investment is only a transformation of capital from a transitory to a more permanent form. When a man takes money out of his pocket and puts it in a savings bank, its amount is not increased but its form is changed. It ceases to be cash money and becomes instead an interest in a real estate mortgage, a city bond or other safe and conservative security in which it has been invested through the instrumentality of the savings bank officials. As an investment it begins at once to earn money. Its amount increases every year, while if it had been hid away in a box or continued in its owner's pocket its amount would have continued the same. How great and constant this investment increase is, the compound interest tables printed in the statistical appendix give in detailed figures.

Any man making an investment knows the amount which his investment costs him. That was a necessary preliminary to making it because he had to pay out his money before he had the investment. What

he does not know is how much his investment will bring him in. The more conservative and safe the investment the more exactly he can figure out its value at any definite time but no man can even approximately predict what his investments will be worth on the day that he dies. Both the day of his death and the value of his investments on that day are uncertain.

On the other hand, the man who has a life insurance policy knows the exact amount which it will pay when he dies, but he has no means of knowing how much the policy will cost him. Even in the extreme case of his buying a life insurance policy by the payment of one premium in advance, he will not know what the policy will cost, because though he knows his initial payment, he has no way of knowing what that payment compounded at interest will amount to on the day of his death.

It is essential in studying the many forms of life insurance policies and the many ways of paying for them that this important fact should be constantly kept in mind that life insurance is not an investment but a protection. A life insurance policy is the opposite to an investment in its uncertainties. An investment is the opposite to a life insurance company in its benefits and defects. Each of them is a good thing. Every man should have both. If having both

he is forced to sacrifice one or the other, let the sacrifice be of the whole or part of his investments and let the retention be of his life insurance policy. The investments he may be able at some future day to replace at the same or less cost price than he received for parting with them. A straight, honest, life insurance policy can never be replaced at the same price and on the same terms. An investment deals with the security in which the investment is made. A life insurance policy deals with the life, health, and the age of the policyholder.

No investment can give equal protection for the same cost as life insurance. No life insurance policy can give the same investment returns as a savings bank. In other words there is no substitute for life insurance. There is no equal way in which a man who has any one financially dependent upon him can protect his dependents against want after his death. The protection which life insurance alone affords has no substitute.

The defects of life insurance are two fold. One is inherent and unavoidable. The other can and should be avoided. The first is the inevitable fact that the average man must pay more for his life insurance than the face of the policy. The second is that its workings have been so perverted in some companies, especially the three largest and a few of the

smallest, that it has been a robbery of the policyholder, extortionate in the charges for most forms of policy, deceptive in its promises, delusive in its small type policy provisions and not giving the policyholder the protection to which he was entitled. It is the main object of this book to lay the facts before the policyholder so that he may buy life insurance protection at as near cost as it can be properly sold, and that he shall not be deluded or confused in making his selection and his purchase.

Life insurance protection does and should cost something. No man expects to get protection against loss by fire without paying for it, or clothing to protect him from the cold without paying his tailor, or a home to shelter him and his family without paying for that. Neither should he expect to get life insurance on an investment basis. It costs money to have a doctor examine him and officials to manage the affairs of the company and for printing, stationery and office rent. Even if the agent received no commission, the other necessary expenses would not be inconsiderable and the policyholder should pay them. Nobody else will or does and the policyholder might as well recognize that whatever his form of policy these expenses are included. Also necessarily, they are proportionately larger than the cost of handling the same amount of money in a savings bank or a trust company or a building and loan association.

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The other defect of present day life insurance is much more serious. It consists of a lack of square dealing with policyholders. The fault cannot be concentrated upon the agent or the management although both are at fault. Possibly the policyholder is more to blame than either because it is in the rarest instances that the policyholder has exercised the same judgment and care in buying life insurance as he would in buying a house or in making any other permanent provision for his family. The man who buys a home to shelter his family both during his life and after his death spends time and care and thought. He looks into its provisions both for the present and the future, its present cost and its future value, the probability of repairs, the kind of cellar it has and foundation walls, whether it heats easily, the plumbing, the roof and all the details. He considers the nature of the neighborhood and the tax rate. He talks it over with his wife and friends.

A life insurance policy is fully as important as a home, and yet how many men give its choice the same consideration, instead of taking whatever policy the agent may advise, governed largely in his advice by the size of his commission. The agent should be little more blamed for this than the shopkeeper who tries to sell the goods which bring him the most profit or the real estate agent who spends extra effort in push-

ing a sale of property when the owner has promised him a bonus besides his ordinary commission.

The loss by death cannot be altered without an increase in longevity by the mass of policyholders. The waste by bad management, extravagance and speculation can be almost entirely done away with if policyholders will exercise their ordinary business powers of discrimination and refuse to buy any form of policy which permits a deviation on the part of the officials or the management from strict accountability to the policyholder and honest contractual relations with him.

Bad management can be no more entirely obviated in life insurance than in any other business. A savings bank may be mismanaged and fail. The officers of a building and loan association may be incompetent or dishonest to the loss of its members. A manufacturing corporation, a railroad, a store, business of any kind may be brought to failure by the lack of judgment, intelligence or moral principles, on the part of its managers or their subordinates. Life insurance should be just as liable to loss from dishonesty or mismanagement as a savings bank, but no more liable.

The greatest defect of the present life insurance system is that mismanagement can continue longer without insolvency or detection than in a savings bank

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or in ordinary business concerns. A savings bank depositor can draw out his money with interest on reasonable notice. The interest is credited annually or semi-annually and any failure to earn it is at once reflected in the public statements unless the examining officials perjure themselves. Neither dishonesty nor gross misconduct can be long continued without detection where there are strict accountability, public statements and honest, thorough supervision. So long as a savings bank has its assets unimpaired the depositors are safe. So long as the security of any investment is good the investment holder is safe. But life insurance, not having the essentials of an investment has been conducted without the safe guards imposed upon all investment enterprises.

A life insurance company's solvency is determined by its ability to pay its policies when they mature. No life insurance company could ever possibly pay its policies if all its policyholders were to die the same year. Neither could any fire insurance company pay its losses should all the property which it has insured be destroyed by fire the same year. Nor could any maritime insurance company, or any other insurance company, meet all its obligations should they all mature at once. Provision in all forms of insurance is made for the policies maturing approximately as the experience of the past has shown

that past policies mature. A great fire like the Chicago or Baltimore or Boston fire causes the failure of many fire insurance companies. A great and universal plague such as swept over Europe in the Middle Ages would cause the failure of almost every life insurance company of the United States, should such a calamity occur today. The greater assurance and certainty of life insurance over all other forms of insurance is that while there have frequently been great conflagrations or extensive shipwrecks or great accidents, there has never been since life insurance began a plague or a series of unexpected deaths sufficient in number to cause life insurance companies to fail. There have been many failures of life insurance companies, but none of them has been caused by plague; but because their plans of insurance were wrong, their premiums were not properly adjusted and their management was either incompetent or dishonest.

The length of selected human lives is gradually increasing over what it was when life insurance began. The greater longevity of the holders of life insurance policies over the average man is remarkable. And it is a curious commentary on the old saying of a sound mind and a sound body, that the policyholders who have shown their business acumen by taking out the best forms of policy and buying the most life insurance protection at the least cost, have

the lowest mortality rate. The men who have been persuaded to buy wasteful policies in mismanaged companies, taking deceptive literature and agent's statements instead of their own investigations die, as the statistics prove, at a more rapid rate than the more thoughtful and careful investigating policyholders. The man who displays a lack of wisdom and judgment in buying life insurance is likely to display a similar lack of wisdom and judgment in the care of his own health and the prolongation of his own life.

CHAPTER III

HISTORY OF LIFE INSURANCE.

IN the year 1706 the first life insurance company was incorporated. By royal charter the Amicable Society of England was authorized to do a business in insuring lives. There had been before that something like modern assessment and fraternal insurance, corresponding more closely to the death benefits paid by trade unions or exchanges, than any other form of present day insurance. Contributions were collected from members of the trade guilds and merchants' associations which were used to help their unfortunate fellow members in sickness or business calamity, and also to succor their families in case of their death. These friendly contributions lacked a system and were more in the nature of charitable contributions than a payment in fulfillment of a contract of obligation.

The Amicable Society started out to insure lives with some sort of system. All the members paid a fixed contribution annually. At the end of the year the expenses were deducted and the balance was divided evenly among the families of the members who had died during that year. The same contribution

was exacted from all members regardless of their age or health or financial circumstances, and the distribution was made on a simple arithmetical basis.

This plan did not continue long before the younger and more vigorous members felt its injustice to them. Their prospect of life was better than of the older members and the assurance of their receiving back for their families something like what they had paid in was most remote. But while this injustice was felt, there were no data or statistics at hand on which to base a more equitable system, and it was a number of years before any radical alterations in this plan were made. The first change was to pay the beneficiaries an equal fixed amount. Some years there were more deaths than other years, which made the amount of payments uneven. The fixed payment was established and the surplus was carried over from year to year to meet the contingency of a year with a high death rate.

This system of insurance has its counterpart today in assessment and fraternal insurance, although present day assessment insurance does make a distinction between members of different ages. The New York Stock Exchange and the Produce Exchange insured the lives of their members in almost identically the same way as the insurance of the old Amicable Society. The member of the stock exchange who

dies has paid over to his estate a lump sum regardless of his age or of the payments which he may have contributed.

After the Amicable Society had been going on for some years two other insurance companies, the Royal Exchange and the London Assurance received charters to do a general insurance business which included life insurance. They sought to find some basis of apportioning the premium charges. Discrimination was made in favor of young and vigorous lives and higher rates were charged older men. Life insurance was only part of the general insurance business of these companies. It was not until 1762 that the first life insurance company on modern lines was established. That is The Society for Equitable Assurance on Lives, otherwise known as the old original Equitable, from which the name was taken of the present Equitable Life Assurance Society of New York.

The old Equitable of London continues to do business today. It has no agents and pays no commission for business. It is conducted more like a savings bank than a modern life insurance company. It has its offices and any one who desires to have it insure his life can call and submit to a medical examination. If he is regarded as a gilt edge life insurance risk, the policy is issued to him; if not, he is rejected. Only excellent risks are taken as the society is managed for

the benefit of the old policy holders and to take in a bad risk would be at their expense. For some years the old Equitable declined to issue any policies at all. It has such large assets in proportion to its insurance liabilities that there is a large element of the policy-holders who favor letting things stand as they are and not adding to the risks. This element of the society is so strong that two-thirds of the expenses of ordinary life insurance companies have been dispensed with. A fuller statement of the old Equitable is given in a subsequent chapter.

The old Equitable first used a mortality table according to the judgment of its own officials, based on London's death rate, and then later adopted what is still known as the Northampton Mortality Table. This was a compilation made by the Clerk of Northampton of the deaths in that parish between the years 1735-1780. The parish clerk of those days kept vital statistics somewhat analogous to those kept by Municipal Health Departments today. He took the annual number of births and applied that to the population to determine the birth rate and then he checked off the ages at which people in the parish died, as a basis for his calculations of the death rates at different ages. A similar table made in Carlisle in 1787, was used for purposes of comparison.

These tables were imperfect because the number of

cases under observation was not sufficient to give an extensive enough basis for the law of averages to equalize itself. The law of averages is that the greater the given number of incidents, the computations therefrom made will more accurately foretell future happenings. That is, that while a coin tossed a few times might show more heads than tails, the more often it is tossed the more likely will it come up heads or tails an equal number of times.

These observations were necessarily based on the continuance of human health and longevity at the same percentages in the future as in the past. The object of the data was only to find out what they had been in the past. The assumption was that they would continue the same in the future. This Northampton table grew into the common law of England and was imported into the Common and Statute law of the United States. It was until recently almost universally used by the courts as the basis for computing the value of life estates, remainders, annuities and the like. It is still so used in some states although it has in recent years been supplanted by the American Experience Table which is a more recent compilation based on a great number of American lives.

The old Equitable added a safe margin to the life insurance rates which the Northampton table indicated in order to be sure to be on the safe side. The

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plagues of the 17th century had not been so long past that the original life insurance managers felt it safe to count always upon a normal death rate. These rates have, however, been materially reduced since, as the experience now of a century and a half has contained no years of material excess.

The principle on which these first life insurance rates were computed was simple. If of a thousand men at the age of 21, ten were computed to die within the year, the amount necessary to be contributed by each of the thousand to pay one thousand dollars to the beneficiaries of each of the ten who die, would naturally be \$10, or one per cent. of the face of the policy. As the number of deaths increased every year the amounts to be paid to meet the death losses also increased. There was a double increase here. After the first year there would be only 990 to pay the death losses. There would be more deaths so the contribution from each should be say, as eleven is to 990 instead of as ten is to 1,000. The method of computing premium rates will be more extensively treated in a succeeding chapter. It is referred to here to explain the reason how as the business of life insurance became more extensive and more popular, the systems of insuring branched out in different channels.

The obvious difficulty with this system of insuring by annual contributions was that gradually the num-

ber of the insured diminished and the annual cost of their insurance increased disproportionately to their numbers. If the number of insured in any class should become too limited, the burden of meeting the heavy annual mortality contributions might exceed the financial ability of some of the members. The last dozen survivors would have only themselves to levy upon and the last survivor, after having paid his share of the mortality loss through the deaths of the other 999, would have nobody to pay anything to his heirs.

This was obvious from the first, and it was met by continually insuring new lives which in their turn kept up the chain of payments. Safer than this, however, was the system of charging a graded premium which would be more than sufficient to meet the annual mortality of the early years and would provide by excess payments in youth for the excess demands of old age. The assessment premiums consisted of only two factors, the annual mortality cost and the expenses of conducting the business in which were included the profits to the managers in case it was a stock company. A stock company can, of course, make profits for its stock holders through selling life insurance at a higher price than life insurance costs, just as a boot and shoe factory can make profits by selling boots and shoes at more than the labor and

material costs. Nobody, though, in an insurance company, except the officials and the stockholders, can make profits. The insured certainly can not.

Life insurance began in the United States about the same time as in England. The oldest company in the United States, the Presbyterian Ministers' Fund of Philadelphia, was founded in 1759, slightly antedating the old Equitable of London. This company still continues to do a prosperous business. It insures the lives of Presbyterian ministers and does not take general risks. Its whole number of policies in 1905 was 6,277 averaging in amount \$1,491. Its net cost of insurance is said to be the lowest in the United States. This is attributed in main part to its careful management, but also to the high grade of its risks.

The oldest of the general life insurance companies is the New England Mutual of Boston, which began in 1835 and still does a large and prosperous business. The Mutual Life of New York is the oldest of New York Companies dating from 1842. The Mutual Benefit of Newark, founded in 1845, is the oldest of the New Jersey Companies, and the North Western Mutual of Milwaukee, founded in 1857, is the oldest of the Western Companies.

Present day life insurance in the United States thus dates from the forties. The earlier companies were named after their respective States, and were all

mutual. The stock companies came into existence later, the Equitable of New York, founded in 1859, being one of the first.

These companies increased rapidly in number until the early '70s, when they were more numerous than they are today. The panic of 1873 and mismanagement brought about the failure of many of these companies, although it is probable that sooner or later a great part of them would have failed anyhow. Some of them were mushroom organizations, many of them did not properly arrange their premium rates and their financial mis-management led inevitably to insolvency.

Almost all of the original companies continue in business today. Many of them have been wisely and conservatively conducted. Others have indulged in speculation and extravagance. All have been conducted on much the same principles of insurance. Those which were doing business on a false basis necessarily failed or reorganized.

All these companies had in common the principle of basing the premium rates on the three elements of cost—the annual mortality, the sums required for reserve, and an additional charge for expenses, called the expense loading. These and other technical terms in common use in life insurance will be more fully defined and explained in a subsequent chapter.

The earlier companies were all mutual and the later stock companies called themselves mutual to the extent of agreeing to return to the policyholders some part of the premium over charges. The mutual companies were on the theory that the mortality charge, the reserve charge and the expense loading would each be made higher than the fact and that the excess over actual results would be returned to the policyholders. It is this return of excess charges which is commonly called "dividends." It is really not dividends in the ordinary meaning of that word, but a refund. The companies guarantee that the policies should in no case cost more than the stated premiums. They admitted that these premiums were higher than the cost and they either explicitly or impliedly agreed to refund the excess.

Besides this form of life insurance which included over eighty per cent. of the assets and also the bulk of the ordinary life insurance business, there developed side by side other forms of life insurance whose policies outnumbered several times the straight or so called old line policies.

Of all forms of life insurance policies, those issued by the industrial insurance companies are now the most numerous. Three of these companies alone, the Prudential of Newark, the Metropolitan of New York, and the John Hancock of Boston, have outstanding

over 15,000,000 policies averaging less than \$150 apiece. The average premium payment on these is \$5 a year, collected in small installments of five, ten and twenty-five cents. This huge business has grown in the last 30 years from an humble beginning in 1875 at Newark.

Industrial insurance differs from ordinary life insurance in that its real effect is not to provide for those dependent upon the policyholder after his death but to furnish the funeral expenses. These policies are taken in the names not only of the husband and father, but of the wife and children. In effect, the payment goes to the undertaker and produces no good result except to have a more expensive and ostentatious funeral than the ordinary means of the family would afford. This insurance costs twice as much as ordinary life insurance. Its value for protection is almost nothing, and its drain on the income of the families who pay it aggregates, according to the United States Department of Labor, a cost greater than the average annual expenditure for tobacco and about the same as the average annual expenditure for intoxicating liquors. The amounts which these companies pay out to their policyholders are only about a third of the sums which their policyholders pay to them. Their policies are not life insurance but funeral insurance, and they have no legitimate

place in a discussion of life insurance protection.

On the other hand, assessment and fraternal life insurance are both in fact, what their name implies. They do furnish life insurance protection, and when properly managed, they furnish protection at a much less cost than deferred dividend, or investment life policies. Their great defect is lack of stability. They have seldom outlived their original members. Assessment life insurance is older than level premium insurance. It is more like the way the Amicable Society started out to do business than the manner in which the greatest life insurance companies do business today. It can be traced back to Rome and Greece, or even to earlier Tribal Communities where the members voluntarily assessed themselves in cases of sickness or death. It and fraternal insurance, to which it is much akin, are the oldest known forms of insurance.

Assessment insurance is of two kinds. Either all the members pay an annual assessment fixed at an amount, the total of which is divided among the beneficiaries, or a fixed sum is paid in case of death and the total amounts required to meet these payments are raised by assessment upon all the members. In some assessment companies there has been a tendency to combine assessment insurance with a greater or less reserve in order to have a fund as a margin of safety. In many of them certain features have been adopted

from the level premium insurance companies in order to provide against the contingency of some members failing to meet their assessments.

Theoretically, assessment insurance with the assessments properly graded according to the age and risk would be the most equitable of all forms of insurance, but its practical working has been such that, except where it was combined with some stronger tie, such as the fraternal organization, or a trade union, or a secret society, assessment insurance has tended to dwindle away. The great difficulty with assessment life insurance is that losses by death have to be replaced by new members, or the assessment rates become prohibitory, and even with constant replacement, the aging of the original members means an annual increase in the total death payments, and correspondingly an annual increase in assessments. The fact that insurance costs so much less in early life than in old age is not sufficiently well understood by the general public to prevent the natural discontent which results from a policyholder seeing the cost of his insurance protection double and treble as the years go on.

Fraternal insurance is an outgrowth from assessment insurance, which it has to a great extent supplanted, although retaining many of its features. Almost all trade unions, many secret organiza-

tions trade and business associations agree to furnish, in addition to their trade, business and social benefits, a certain protection to their members in time of sickness or death. This protection is only approximately based on mortality tables. The cost of it is included in the ordinary payments or dues and its expenses are met out of the general fund of the fraternal order, secret society or association. In some cases the amount paid is not larger than enough for a funeral benefit. In other cases definite insurance policies are issued in amounts as large as the smaller policies of an old line company.

In the organizations where policies of a thousand dollars or more are issued it has been found necessary to adopt a scale of premiums based to an extent on the standard mortality tables. This, however, is usual only where the beneficiaries receive different amounts and the policyholders pay proportionate dues. Where an organization pays the same sum in all cases of death or sickness, the amount paid is smaller and the dues or premium payments are generally the same irrespective of the age of the member.

The general principle of fraternal insurance is that of an equality in payment and an equality of benefit. No life insurance company could be conducted on such a principle as that young men should pay the same amount for insurance protection as old men.

The insurance of old men at the same price as young men is in reality charity and not business. Any life insurance company which would undertake such a thing would fail. Some assessment companies which lacked the fraternal ties and undertook this have failed, to the discredit of assessment insurance. Other assessment companies have found their error and sought to correct it by an adjustment of premium rates, charging the older members what their insurance costs. This causes dissatisfaction among the older members who had been led to expect that the contract made with them would continue on the same terms until their death. The recent troubles in the Royal Arcanum have resulted from necessary attempts to readjust the amounts charged for insurance. The readjustment might perhaps have been made more skilfully and with less hardship to the older members, but it was none the less imperative to rearrange the rates and to increase the cost of insurance if the Royal Arcanum was to be kept out of insolvency.

CHAPTER IV

LIFE INSURANCE FRILLS. WHAT IS SOLD UNDER THE HEAD OF LIFE INSURANCE.

OF the policies issued by the great present day life, insurance companies, hardly a quarter are purely life insurance policies. There are hundreds of forms of policy but very few contain the simple promise of a payment of a fixed amount at the death of a policyholder, that and nothing more. The additions to and the variations from this pure simple contract are numbered in the hundreds. Some companies seek to bring out novelties every Spring and Fall like a milliner's or dressmaker's announcements. They have skilled ingenious officials devising new propositions under attractive names which the plausible agents present to the public.

These many policy forms concur in promising a payment of some kind at the death, but the amount of the payment and the manner of paying it are of great variety and the alternatives to its payment are still more varied. To state all the opportunities, possibilities and alternatives of the popular and most sold forms of policy, takes several pages of type and figures.

Part of the promises are printed in large type. Most of the alternatives and almost all of the restrictions are in small type. The combination is so lacking in intelligibility and clearness that it is doubtful if one policyholder in ten can, by reading his policy, get a clear comprehension of its provisions and promises. It is doubtful if one policyholder in a hundred has an accurate and correct knowledge of exactly what contract the insurance company has made with him.

The simplest form of policy is short term insurance. From the business point of view this most nearly corresponds to a fire insurance policy and similarly this form of policy is taken usually only in business matters. Where a partnership is created for a few years or a sum of money borrowed for a short period, or some other business arrangement made where the life of one of the contracting parties is an important feature to its fulfillment, it is frequent that a life insurance policy of a term equal to the business transaction is taken as a protection. Such a policy has no frills. It is the cheapest form of life insurance protection and it is almost never issued except in connection with some business transaction.

Next to that in simplicity are long term or renewable term policies, whose premium rates are comparatively low, which participate in no profits or savings or

surplus earnings and which have little if any reserve or surrender value.

Next is the common form of straight level premium policy non-participating, that is with no right to any refund of the excess charges. It is called non-participating because the policyholder has no right to share or participate in any so called "dividends" or "profits." That is, the non-participating policyholder pays a lower premium rate and in consideration of the lower premium he waives a right to the refund of any excess premium charge or to any part of any surplus resulting therefrom. These straight life policies used to be sold to a much greater extent than now. The commission the agent receives on them is less than on the more costly forms of policy and few agents even offer them for sale or issue them unless they are asked for. The advantages and certainty of the lower premium of a non-participating policy are not generally known to the public. Some of the biggest companies refuse to issue them.

More common than term and non-participating policies as a form in which life insurance protection is sold are the participating or dividend policies. For the same amount of insurance protection the premium is about a quarter higher for a participating policy than a non-participating policy. The premium tables printed in the statistical appendix give these premium rates in

detail and enable a prospective policyholder, with the use of the progressive compound interest table to figure out their comparative cost.

Initially a dividend policy of whatever nature costs more than either non-participating or term insurance. Any man who dies within the dividend period would have saved money had he taken a non-participating or term policy. Whether a participating policy is cheaper in the end depends almost entirely on the efficiency and integrity of the management of the company. It depends upon also how long a man lives after taking out the policy.

To the extent that the premium rate of a participating policy is higher than the rate for a non-participating policy, the dividend policyholder has made a speculation on which he may win or lose. The experience of recent years in most dividend companies is that the policyholder would have been better off if he had taken the difference in premiums and deposited it in a savings bank. This varies greatly, however, according to the company. No general statement about all companies can be made in this regard, as the refunds in the name of "dividends" have been much larger in annual dividend companies than in deferred dividend companies. Here again the dividend tables and statistics must be consulted and the policyholder must use his own judgment as in

any other form of investment. The risk ranges as much as between investing in Mexican gold mines and in a good real estate mortgage.

It must be understood that the word "dividends" is used in describing these refunds of excess charges, because that is the term which all insurance companies apply to them and under which heading the various insurance publications and insurance reports contain these items. As was explained in the preceding chapters, there can be no dividends or profits from an insurance policy. There can be only a refund or surplus, resulting from a preceding excess charge. With this explanation the term "dividends" will be used in the further discussion of the subject in order to avoid the continued repetition of the explanation of this fallacy and to conform with the general insurance literature 99 per cent. of which is prepared or published for the insurance companies and their agents.

Dividend policies are of two general kinds, short term or annual, and deferred. In annual dividend policies the excess cost is computed and either credited or returned annually. In deferred dividend policies the computation and the credit or repayment are deferred for 10, 15 or generally 20 years. Any policyholder who dies during the dividend period receives no dividend. If he holds a 20 year deferred dividend policy and dies on the day before the 20 year period

expires, all the excess premiums which he has paid and all the compound interest on them is forfeited. Neither he nor his heirs receive any benefit whatsoever for a long continued additional and needless expenditure.

In these dividend contracts there is no legal agreement as to how the dividends are computed or as to what their amounts will be. In regard to this the agents are profuse in the expectations held out and the promises made by implication, but the policy does not contain these promises and the courts have repeatedly decided when the deluded policyholder sued, that all the policyholder is legally entitled to receive is the face of his policy and whatever additional amount the officials choose to apportion to him.

It is these long time deferred dividend contracts and other so called "investment policies," which are pushed by the agent and make up the majority of policies now in force.

From the policyholder's standpoint a deferred dividend policy has no advantages. It gives no more life insurance protection than the cheaper forms of policy. It has no greater reserve than non-participating insurance. In return for paying a quarter more, all the policyholder receives is the possibility of his getting back after 20 years part of the excess payment. The same objections apply to a less extent where the pay-

ments and apportionments are made annually. In these cases the policyholder is reasonably certain to get back something.

Where the company is well managed, economically administered and its investments of its reserve are profitable, as in the best managed mutual companies, the annual dividend policy costs less to long lived men than either non-participating or term insurance. To the short lived man it costs more. If the annual dividend policy were in reality a contract annually to refund the excess premium over the mortality and the reserve requirements and a fixed percentage for expenses, it would begin with the first year and continue every other year giving the insured his insurance at actual cost, plus the expense of management. But none of these dividend policies, whether annual or deferred, provides for a more contractual computation. They all permit the officials to make what apportionment they think best, and leave the policyholder at their discretion in respect to what he receives over the definite amount stated in his policy.

A deferred dividend policy is the worst of all the so-called investment policies. The evils inevitable to it are inherent in all forms of policy which seek to combine investment savings with life insurance protec-

tion. The higher the premium rate and the greater the number of alternative selections, the more certain it is that the policyholder, at the end of the long deferred dividend period, gets neither what he expected nor what he paid for.

The combination of life insurance with endowment is one of the most attractive and popular, and at the same time one of the most illogical of the investment policies. A pure endowment policy is exactly the opposite to a life insurance policy. An endowment is payable only should the insured be living at the end of the endowment period. Should he die before his endowment matures all his excess payments are gone, and his heirs have nothing to show for them.

While life insurance is paid only on death, endowment is paid only to live men. It should be evident to every one that the same man cannot under the same policy receive both endowment and death payments. To get one he must die. To get the other he must live and he cannot by any contingency be both dead and alive at the same time.

This would seem a perfectly obvious truism but still policyholders go on making the high payments which this combination policy demands, on the agent's assurance that in any event they are sure to get the face of their policy. If they live they get their endowment. If they die they get their life insurance. They

are sure to win. If instead the policyholder would think for a moment, consider he was paying for both and cannot get more than one, the fallacy of this popular argument from the delusions of which both agents and officials profit, would bring about its destruction.

No man who is certain to live twenty years needs any life insurance. He had much better put the premium money in a savings bank or a home, or loan it out on bond or mortgage or even buy government 2 per cent. bonds with it, the least remunerative form of investment known except an investment policy in a Wall Street life insurance company.

A pure endowment policy has its advantages in inculcating habits of regular savings. There are a number of trust companies, banks and other financial institutions, which issue endowment policies non-forfeitable at death and maturing at 10, 15, 20 and 25 year periods. The cost of these endowments is no higher than the cost of a life insurance endowment, and they have the great advantage that should the policyholder die during the endowment period, his savings compounded are turned over to his estate, instead of being absolutely forfeited as the combination life and endowment policy provides. If a man wants an endowment he should buy the pure and non-forfeitable article, instead of a forfeitable combination with a term life insurance policy.

These combination policies are of many kinds, tontine, semi-tontine, accumulation annuity, five per cent. bonds and other forms. They are all frills and delusions, all of them containing the fundamental fallacy that a man is paying for two things and cannot get more than one, and many of them containing an additional fallacy in their promise to return his premiums without any mention of the compound interest which these premiums have accumulated during the years that they have been kept in the company's possession.

Further on an arithmetical analysis will be made of the workings of these forms of policies. All that is sought to be set forth here is that none of these frills is necessary or even incidental to life insurance protection and that the excessive cost of them is a needless payment, a waste of the policyholders' hard earned money and a constant incentive to dishonesty, waste and mismanagement by the officials of the companies which urge the expensive attachments on the policyholders.

The pure tontine form of investment policy is a scheme to give the policyholders who continue paying their premiums to the expiration of their policies, the benefit of all the payments forfeited by policyholders who are unable to continue. It is a speculative delusion that the policyholders who stick will re-

ceive what other policyholders paid for something they did not get. That is, some men are to get what some other man paid for and did not get.

Such a promise is deceptive and the code of morals which promulgates it bears fruit in the dishonesty of the officials who carry it into execution. Every man should get what life insurance protection he pays for. Any fortune has for its basis taking from some men what they have paid for and giving others what they have not paid for. A man who would enter into it had better sit down at a gambling table and have his "speculation" over with speedily.

The semi-tontine investment policies are a compromise by which the men who drop out get a refund of part of the excess charge, and the remainder of the excess charge which should have been refunded is carried into an accumulation fund. It is only half as speculative as the whole tontine. It is somewhat as if at the end of a poker game the chips were redeemed at half price and settlements made on a fifty per cent. basis so that the winnings and losses alike would be scaled down.

The deferred dividend accumulation policies are the most common speculative form of the tontine. In these the survivors are supposed to get the dividends of those who died earlier. In return for paying premiums a greater number of years, they are promised

the receipt of the excess payments of the policyholders in their class who died earlier. All are charged an excess premium every year with the promise that the survivors will receive all the excesses.

These provisions are not life insurance. None of them should have anything to do with life insurance. If a man wants to speculate he has that constitutional right. The main object of life insurance is to guard his wife and children against the disastrous results of untimely death without assuming other speculative risks. It is to assure them a modest competency approximate to his saving capacity capitalized. To combine with such safeguards against the future, any speculation or gambling is inherently wrong.

The tendency has been to make these gambling policies still more popular and add to them another gamble as to the length of life of the widow and orphans. Instead of these speculative policies providing for a fixed and permanent payment at death, there is a provision for a number of single payments to the widow. There is also a provision for dividing these single payments among the widow and orphans. These provisions are called a guaranteed annuity and cloaked under that guise.

An annuity is the opposite to level premium non-participating life insurance. The annuity contract is that in return for the payment of a lump sum, the an-

nuitant shall receive a fixed sum annually until his death. The payment is of course based on the age and the average prospective life of the annuitants.

To combine an annuity with a life insurance policy is to combine the life risk of the policyholder with the then life risk of his wife and children. The longer the policyholder lives, the less is the likelihood of longer life to his wife and children. The day of their death approaches every year just as the day of his death does. An annuity which is based on their age at the time he insures, should be much larger than when computed on the basis of their age on the day of his death. Annuities are sold without medical examination and are based on the American Experience Mortality Tables and the usual reserve rate of interest. If the widow and orphans are to have an annuity it is better and cheaper to wait until the policyholder's death and then to take the insurance money and buy one.

Annuities are at best a vanishing form of investment, since the principal departs with the interest payments and the usual annuity return is not so much higher than savings bank interest or conservative bonds or real estate mortgages as to make it profitable to purchase. In England where the business of selling annuities has been more developed than in the United States, the rate of annuity return more nearly approximates the current rate of interest on conser-

vative investments. It has the selfish virtue of insuring to its possessor a certain income during his life and guaranteeing there will be nothing left to his heirs. Where a man is at war with all his relatives an annuity is a sure way for him to get the full material enjoyment of his own estate and to finish his life in idleness, in the certainty that there will be no heirs eagerly awaiting the day of his death.

Should perchance any man desire any of these life insurance frills, he should regard them as what they are—not life insurance protection, but something apart from life insurance. He should make a separate contract for them and figure out exactly what they cost him and what he will get. He cannot get life insurance protection without paying for it, and he had better take his life insurance policy pure and simple and without any contract, except that in return for his paying the premiums his beneficiaries shall receive a fixed sum at his death.

CHAPTER V

WHO SHOULD INSURE AND WHY

SINCE life insurance is only protection, no one should buy it who has not some one beside himself to protect. If the only desire is to secure protection against accident, an accident insurance policy is the best and cheapest for that. If it is to secure protection against the infirmities and possible poverty of old age, a pure endowment policy without any life insurance features or systematic deposits in a savings bank or conservative investments of any kind, will accomplish that result. A life insurance policy detracts and hinders rather than helps provision for old age since it pays only after death, except the surrender value which amounts in old age to only a third or a half of what would have been the total of the premium payments deposited at compound interest.

On the other hand, life insurance is not only the best but the cheapest and only adequate way to protect others. Nothing can or does take its place because there is no other form of contract which gives the same payment at death whether the insured dies tomorrow or at the end of fifty years. The great and

essential and unique benefit of life insurance has been beclouded by the delusions of investment and combination policies and by the neglect to present it as what it is and sell it on a frank business basis as any other necessary commodity. To make life insurance pure and simple, instead of diminishing its volume as the advocates of deceptive policies assert, would have the opposite effect in increasing the amount of life insurance and in making its utilities better known and its benefits of more common value.

The instinct of protecting a man's wife and family is so strong that assessment, benevolent and fraternal organizations outnumber in their membership the holders of the complicated policies. The natural desire to buy the most life insurance protection at the least cost has led the wage earning class in general to go into those associations which do not seek to combine investment, speculative and gambling features with life insurance protection. The management of many of these associations has been more honest than intelligent. It has lacked the technical actuarial knowledge and experience which is necessary to prevent selling life insurance at too low a cost with the ultimate resulting failure, but with all that, the recognition of the need of life insurance protection has been so general that some ill-adjusted and almost chimerical plans have filled the popular demand fully

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more faithfully than some of the great companies with their \$150,000 presidents, their \$25,000 actuaries and their gold bond policies.

A severe arraignment is due these richer and more intelligent men who have spent the money of their policyholders in forcing upon the public policies which were not for the best interest of the public rather than filling their proper place as leaders and instructors and educators of the public, to an intelligent knowledge of what life insurance is and what it should cost.

The public must share in this blame because they, especially those who are better off and better educated, have contributed to it by buying the forms of policies which give the least life insurance protection for the money. That part of the public which suffers financially most by the delusive fallacies of investment in deferred dividend policies is not the mechanic or the member of a trade union or fraternal society, who insures to a modest extent in his own organization, but the business men and professional men who have taken out policies of larger size and who have turned a great part of their surplus savings over to extravagant or dishonest managers.

Every man who is married should insure, except possibly in those unusual cases where his wife has such a large individual estate that she contributes to his support instead of he to hers. Even in this rare

case if he has children he should insure his life for their benefit. No matter whether his health is good or bad, or his prospect of life, according to his own judgment, long or short; he should buy life insurance protection in proportion to his means and scale of living.

This applies as well to the rich man as to the poor man, to the professional man as to the farmer, to the shopkeeper as to the mechanic. Every man whose earning power is a protection to some one else should take out a life insurance policy so that that protection may not wholly cease upon his death. Not only should protection be provided for the members of his family, his wife and children, his mother and sisters, if they too are dependent upon him, but the same protection should be provided against losses to his business associates or his creditors by his death.

The use of life insurance protection in business affairs should be more common than it is, especially among men of many activities. The value of the man's business depends greatly upon his ability to look after it. What his personal investments are worth under his supervision and management is as a rule much more than what they would realize in an executor's or administrator's hands after his death.

No man, as has been stated more fully in a preceding chapter, can insure his whole earning capacity.

If he bought life insurance with all his surplus earnings, the total paid to his wife and children would not in its income producing power anything like equal his whole earnings, for out of his earnings he would have to take his living expenses before his payments for life insurance premiums.

Then there are few men, especially few business men, who can afford to put all their surplus earnings in life insurance. The demands of a growing business require increased capital. Increased profits usually induce a more expensive scale of living. Even with men on a fixed salary there are few who can regularly make premium payments equal to their maximum savings. The premiums which a man with only a wife might meet would become heavy as the children came and the premiums which might be paid while the children were young would prove too great as the children grew older and their education and other expenses increased. Undertakings to pay too large premiums account for a great proportion of the lapsed and surrendered policies.

No pure life insurance policy on which premiums have been paid can ever be sold for what it is worth to the policyholder. Its only value to the company is in relieving it from contingent liability. Even then few companies pay the full value of the contingent liability. In any case its value as protection to the

man's family is much greater than the money which the company will pay him for its surrender. Every man who contemplates surrendering an insurance policy, especially a level premium, non-participating policy, should realize the important fact that he cannot buy back the same amount of life insurance protection at anything like the price he sold it for. The longer he has paid premiums on the policy the greater is the difference between the rate at which he originally insured and the rate which he would have to pay for insurance at his advanced age.

An honest man is almost as desirous of fulfilling his obligations as of protecting his wife and children. Every man should try his best to do both. Life insurance is the best and cheapest way to do both. How many men die with their business affairs so involved that there is nothing left for their families except their life insurance and that even their homes have to be sold to meet obligations to their creditors!

The value of a partnership depends upon the work and ability of all its members. The result of a contract depends upon the contractor living to carry out his plans. The value of a crop, of goods in manufacture of almost all forms of industrial production, depends more or less on the same hand holding the helm until the voyage has come to its end.

Against all these contingencies a man should insure

his life. His good business name is dear to his wife and children. The insurance which he gives them should be free from any conscientious pressure to devote part of it to the payment of his debts. He does not want to leave his wife so that his business associates and friends and neighbors can feel, and somewhat justly, that her inheritance from him has been to any extent at their expense.

Against old age a man may properly insure by laying aside money in a savings bank. He is certain that if he continues his deposits old age will find him guarded against poverty and that the same estate which supported him in old age will continue to support his family afterwards. If everybody were to die at the same time the average man dies, life insurance would be a needless expense. It gives the financial assurity which nothing else can, and therefore wherever there is a loss contingent upon the failure to live long, there life insurance should be bought to minimize the risk.

A popular misapprehension exists that insurance is gambling, or at least a speculation. Quite the contrary. What insurance does is not to create a new speculation or risk, but to diminish a risk already and inevitably existing. A man who owns his home is always in danger of his house burning down and that is a great and serious risk which no man should as-

sume himself. Only large corporations whose property is located at many places and which are able to maintain fire protection of their own, can profitably assume the risk of loss by fire. The man who insures his house does not diminish the danger of its burning by taking out a fire insurance policy, but he does minimize his risk. If he insures for the full value of the property he reduces the financial risk from the total value of his house to the small percentage of that value which he pays for protection. He risks not the face of his fire insurance policy but the amount of his premium. It is an almost trifling risk instead of a great one. So with life insurance, only the real risk there is less proportionately than in insurance against fire, for every man dies some day or other while most houses never burn down.

The only risk which a life insurance policyholder must take is of the total of the mortality cost and the expenses of management which together represent the annual cost of his protection. The reserve cost he does not risk except in the earlier years of his policy. This statement does not apply to a combination endowment or deferred dividend or similar form of investment policy which matures only after a period of years. In the case of these policies the holder takes the risk of all the investment payments and the compound interest on them. It is his investment re-

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turns and not the legitimate cost of his insurance protection which are the gamble and the speculation.

The man who insures his life diminishes the risk of financial loss from death by the extent of the face of his policy. If his earning power is \$1,000 a year and he insures his life for \$5,000, the financial loss by his death is diminished by the \$5,000. Instead of having him to work and earn for them his family have \$5,000 to work and earn for them. At 4 per cent interest this would return \$200 a year. The annual risk of his death instead of being \$1,000 is only \$800. In effect this risk is reduced proportionately more because with his death his personal expenses cease. If the cost of his clothing and food and personal expenses were \$400 a year, the financial loss by his death would be \$600 a year. His insurance would lessen this loss a third.

Neither is a risk taken by the insurance company. The insurance company, regarded from the proper economic standpoint, is merely a collecting and distributing agent. The death rate is fairly constant. The contract of insurance in practice evens the loss on all the insured in proportion to their premiums and the amounts of their policies. The man who dies has already paid his share of the annual mortality. The other policyholders had already paid their shares.

The company had the money to pay so many death losses already in hand. It makes no difference to it or to the surviving policyholders what individuals die or what ones live. The only happening that could interfere with this would be such a plague or epidemic or sweep of disease as would cause present day mortality to exceed the mortality of past experience. There has been no such result in a well conducted life insurance company since the Amicable Society began selling life insurance in 1706. The possibility of any such disaster is so remote that it would be an error to consider it.

Since insurance is only a protection it is a waste of money for any man to buy it who has no one to protect. It is also an extravagance to buy it in anticipation of having some one to protect. For a young unmarried man with no one dependent upon him to take out a life insurance policy is a waste of the premium money. Almost the only case in which such a course would be profitable is where a man's health should later break down so that he would become unable to pass a medical examination and then after his health had broken down he should persist in marrying and assuming family responsibilities. Where a young man has a mother or father or other relatives dependent upon him for support he should of course insure; should they die before him he could then desig-

nate a new beneficiary. But where a young man has no one dependent upon him, where there is no reason for his providing for the protection of anybody except himself, he had far better invest his money than spend it in life insurance premiums.

Until the relation of protector arises, life insurance is as valueless as for the man who already has all the clothes he needs, to buy additional clothing because he may need it the next year or the year after that. The illustration is favorable, because the clothing would always have some value, while the life protection for which he has paid ceases at the end of the year which was paid for unless it is paid for over again every successive year.

As it is wasteful to buy life insurance protection before it is needed, it is still more foolish not to buy it at once when it is needed. And the necessity arises as soon as the relation of protector arises. The life insurance policy should have the same date with the marriage certificate. There should be other policies simultaneous with the birthday of every child. There should be other policies for every dependent relative. There should be other policies synchronous with every business venture. Instead of there being only 20,000,000 life insurance policies in the United States there should be 100,000,000.

With the purging of life insurance policies from

their complications, with the purifying of the management, with full publicity, with everything simplified and open to the sunlight, life insurance should step into its proper relation to home life and industrial conditions as the great minimizer of risk, the antidote to speculation, and the guarantee against the financial vicissitudes of American life, its ups and downs, its fatal fluctuations and the financial wreck which so often death leaves behind. Against these life insurance is the best protection.

CHAPTER VI

WHAT KIND OF POLICY TO BUY

EVERY company has its own forms and kinds of policies. All told there are thousands, the large companies having several hundred apiece, but all these forms of policies come under five general heads. 1, Industrial; 2, Assessment or Fraternal; 3, Natural Premium or Term Insurance; 4, Level Premium; 5, Combination Investment Policies.

Under the heading of natural premium policies would be included term insurance, and, under level premium would be grouped both participating and non-participating policies, provided that the participating policies annually returned the savings in excess charges to the policyholder. Any form of deferred dividend is to an extent speculation and in part investment, and is not, strictly speaking, a level premium policy, although the premiums may be level in their contract amount. In a strict classification, annual dividend policies might also be in the fifth instead of the fourth class, but an annual dividend policy has no investment features, and where the dividends equal the mortality and reserve savings, it is not speculative.

Industrial insurance is only in small amounts. Its essential features are that the premiums are paid weekly and collected by agents instead of annually or semi-annually by payments to the principal office; its premiums are of fixed amount five or ten cents a week, and the policy payments vary, instead of the policy payments being in even sums and the premiums varying as in ordinary life insurance. Industrial insurance pays back on the average 28 cents for every dollar the policyholder pays in. Less than one policy in ten pays anything. It is the most expensive form of insurance and no one should buy it. Almost all of the ordinary life insurance companies will receive premiums quarterly, and they also sell policies on which the premiums are no larger than the cost of an industrial insurance policy. The same amount of insurance in any other than an industrial company costs a half to a third as much; or to put it differently, the same sums annually paid in premiums will buy two or three times as much life insurance protection by taking a policy in other than the industrial companies. Several of the largest industrial companies actually issue life insurance policies at less than half the rate they charge for their industrial policies. To cite the argument of the President of one of the largest Industrial Companies before the New York Legislative Investigating Committee: "the man who

buys coal by the pail instead of the ton has to pay or 3 times as much for it." That statement should be a conclusive argument against taking out an industrial policy. The man who never has enough money at one time to pay a quarterly premium on a five hundred or a thousand dollar term or level premium policy, cannot buy an industrial policy to an amount more than enough to give him a somewhat elaborate instead of a modest funeral. Indeed this is where four-fifths of the payments of industrial insurance go—to add to the funeral display. The aggregate payments made on a term or straight life policy would result in a substantial payment several times as large and of great value to the widow and orphans.

There is no table of industrial insurance premiums printed in the statistical appendix. Nor does it state the volume of business, premiums and assets of the industrial companies. No aid will be given by this book to such "insurance." Every one of the other four classes of policies has legitimate arguments in its favor. Every one has its advantages and disadvantages. While the author does not believe in combining in one policy investment and insurance protection, or in withholding dividends from the policyholders for 10, 15 or 20 years, and sees no reason why the average man should not buy life insurance at the lowest price he can, still it would be extreme prejudice to denounce

the judgment of everybody who may take out some other form of policy than the conclusions in this book would indicate. But as to industrial insurance there is no reason for its existence in its present form except the enrichment of the officials and stockholders at the expense of the policyholders.

Assessment and fraternal insurance comes under the same head in the general principles under which it is operated. Some assessment societies and fraternal orders issue level premium and investment policies. As to these, they should be considered the same as any other policies of those kinds. The mere fact that they are issued by an assessment or fraternal organization does not change their nature. Any policy which conforms to the definition of a level premium or an investment policy is one, no matter what the concern which issues it may call it.

The essence of assessment or fraternal insurance is the payment of the death loss by contributions from all the members not based strictly on the American Experience Mortality Table and the actuarial calculations of the so-called Old Line companies, but on a general system of mutual aid and contribution and fraternal fellowship. Without this binding tie assessment insurance can not continue long unless it is made to conform with the actuarial facts. Many associations which started out by meeting death losses

through approximately equal assessments on all their members have by stress of circumstances come to conform to the actuarial principles of the so-called "Old Line" companies. Other assessment organizations which refused to adapt themselves have gone out of existence through their inability to continue on the faulty principles which they believed would work. The fraternal societies have lasted better than the assessment organizations which had no other tie than a common desire for life insurance protection. A secret society or a trade union or a mystic order or other body of that nature has other interests and cohesive power besides its life insurance features. Members join through other motives than a sole desire for life insurance. These ties keep up the membership better, prevent the dropping out of so many members when extra assessments are necessary, and reconcile young men to the inequalities of payments which operate against them by not assessing them as much less than the older members as the mortality experience would prescribe.

For many men fraternal insurance is as good a form as any. It is not likely on the whole to cost excessively. The danger is more in the lack of stability and the possibility of insolvency than in dishonest management or excessive premiums. The errors in the management of fraternal insurance come more

through ignorance. The defects in the recent management of the three biggest "Old Line" insurance companies did not come through ignorance, but through dishonesty and malpractice.

It is difficult to generalize about the fraternal and assessment societies because the cost of insurance in them differs so greatly and the efficiency and competency of their management shows a much wider variation than in the Old Line companies. It may be explained here that "Old Line" is the general term for the insurance companies which are required by law to keep reserves and report to the insurance departments of the various states. They all sell various forms of level premium policies, all of which require substantial reserve accumulations.

On the assessment plan the annual cost to the policyholder cannot be guaranteed as to its maximum. Every Old Line policy cannot, under any circumstances, cost the policyholder more than a stated sum named as premium. Where an assessment policy does contain a fixed and stipulated premium, it is not really an assessment policy, but only a fixed premium policy issued by an assessment company. In theory, all assessment losses are paid by contributions from the members. If there are no losses, there are no contributions except for managing expenses. If there are slight losses, the assessments are low. If the

losses are numerous, the assessments are high. Instead of the experience of many years being taken in determining the fixed premium rate, the experience of each year stands by itself, and the experience of each company stands by itself.

How greatly these experiences differ is shown by the mortality returns of these companies for 1904. The Knights of Honor of St. Louis had a death rate of 34.15. The death rate of the Foresters of America of Brooklyn was 48.35. The modern Woodmen of Rock Island had a death rate of only 5.65. The Royal Arcanum had a death rate of 10.41, which was about the average. The 60 best known assessment life associations having a total membership of 3,046,365, had an average death rate in 1904 of 9.54, but this ratio fluctuated in individual societies from 4.57 of the Ancient Order of Gleaners, a new and small organization, to the enormous death rate of the Foresters of Brooklyn, which should not be confused with the Independent Order of Foresters of Toronto, a large and old organization which had a death rate of 7.40. These death rates are given as the proportion of death losses per thousand members.

Of course a society which has five times the percentage of death losses must collect five times as much money to pay them, and the assessments of the members in one will be only one-fifth of the assess-

ments of the members in the other. The assessment societies with the lowest death rate can afford to furnish insurance protection at present for a less cost than any Old Line company. On the other hand, the oldest assessment societies cannot sell insurance protection as cheaply as a term policy in the Old Line companies, or as the cost of non-participating or annual dividend policies in the best managed Old Line companies. If the members of fraternal orders and assessment societies better understood the elements of cost of life insurance protection, they could adjust the rates and conditions of their insurance so that the cost would not be so variable and their insurance plans would meet with more even results.

The great advantage the fraternal orders have is in saving the agent's commissions and the cost of solicitation, advertising and literature. In this no regular insurance company can compete with them. Even the companies which pay the lowest commission expend over 10 per cent. every year of their premium receipts in the conduct of their business. In the three largest companies the expenses of management average a quarter of the premium receipts. Even if the agency force were reduced only to office managers, medical examiners and clerks and the solicitors were cut off entirely, the fraternal societies would still have the great advantage in expense that their officers

conduct the insurance business of the society in connection with its social and fraternal affairs and without the salaries, office and other expenses which in strictly insurance business could not be avoided. There is also a saving in taxes and a less likelihood of fraud.

As against this are to be offset the ignorance of technical insurance by the ordinary officer of a fraternal society and the occasional disruption or failure of the organization. Indeed, almost every assessment society has had to reorganize its plans and remodel its insurance principles. If it did not it would drift into the condition of the Knights of Honor of St. Louis or the Foresters of Brooklyn, where many members who could get insurance elsewhere withdrew and most of those remaining were old men or were such bad risks as to be unacceptable elsewhere. This process means the destruction of any assessment organization where there is not such a strong fraternal tie as to keep in the good risks and young members notwithstanding the increasing assessments. As every assessment organization grows older and its original members grow old with it, its death rate tends to rise and it is confronted with the necessity of readjusting rates. The Royal Arcanum is now undergoing that experience, its death rate having increased 20 per cent. in the last 10 years, and the necessity either for more assessments or for

a readjustment of charges having become imperative.

Summarizing insurance protection of the second assessment or fraternal class, it may be advised that men who are naturally, through their social relations or their occupations, a member of a fraternal order, should take out a moderate amount of insurance in connection with the other benefits they receive. It is not advised that any one should take out all his life insurance protection in any one company and especially not in one policy, but to the extent that a man's average earnings and savings permit, he should take out a certain amount or proportion of his life insurance protection in the societies and orders with which he is associated. Assessment insurance, except where the fraternal feature or other business relations are combined with it, is not advised, not because the principle of assessment insurance with the assessment properly graded according to age is in itself unsound, but because there is less likelihood of dissolution or insolvency in an Old Line company than in an assessment organization where there are no other ties to hold the insured together. Whatever injustices there may be in the collection of mortality losses from the members of fraternal societies, there are compensations which tend to prevent dissension. This great field of insurance has proved its popularity and value too well to be entirely cast aside because of the mismanagement of

some officials and the failures of some assessment associations caused more by their ignorance of the mathematics of life insurance than through wilfulness or speculation.

Natural premium insurance is what assessment insurance would be if it were on a purely mathematical basis, and instead of making its collections to meet the death losses as they occur, substituted a fixed premium based on the American Experience Mortality Tables with a margin for expenses and then returned at the end of the year the excess over the actual mortality. Natural premium insurance is the best for all business purposes where a term insurance policy gives the same protection at less cost than any other form of policy. Insurance protection for a fixed period of years is always cheaper than the same amount of protection on a life contract. A life policy is sure to mature some day. It may be forty or fifty years before the policyholder dies, but unless his policy is surrendered or lapsed, the company must count on the certainty of having to pay it. In term insurance there is always a possibility, in most cases the probability, of the policyholder outliving the period of his policy.

Life policies have their premiums calculated on the basis that no one lives to be over 96 years of age; the exceptions being so very few in proportion to the mass of the population as to have no effect on the actuarial

calculations. A life policy is in its premium calculation based on this age and a term policy running to the age of 96 would both be equivalent in their premiums to a level premium policy.

In an annual term policy there are only two elements of cost—the mortality loss and the expenses of management; the additional charge for a reserve being necessary only on level premium policies. Thus at the age of 21 the death rate per thousand according to the American Experience Table is slightly less than 8. A payment of one per cent. of the face of the policy would allow a margin of 25 per cent. for expenses and contingencies. That is as cheap as life insurance protection at that age can be safely sold. The death rate of men who pass the medical examination is much lower, the first five years especially, than the average death rate, but it is not safe to try to sell life insurance protection too cheap because a slightly excess death rate would impair solvency. Some of the assessment societies had lower death rates in 1904 than the American Experience indicates for men of 21. That enables them to sell life insurance protection cheaper than any ordinary insurance company so long as their death rate continues low, but it is an absolute certainty that the death rate will increase, and that the only safe basis to figure on is what the best experience indicates.

In a mutual company the policyholders are morally entitled to receive back the difference between the death rate of the table and the actual death rate. In practice they receive back whatever sum the officials in their discretion return. So far as the author knows, none of the common forms of policy issued by the mutual companies specifically agrees to return to the policyholder the exact saving between the theoretic death rate and the actual death rate.

Still, without this return of the mortality saving, term insurance is the cheapest temporary protection. Its cost varies according to the company issuing the policy, but whatever company's premium rates are consulted the result is the same that term insurance is initially the cheapest.

There are several kinds of term insurance. The cheapest of all is annual term insurance subject to annual medical examination. No one should buy a policy of this form except to protect for a short time a business risk and with no intention of continuing the policy further. The chance of dying between two annual medical examinations and still being so healthy as not to disclose the bad risk to the medical examiner is too remote for a man to take this form of protection for any other than a business purpose. This kind of term insurance is sold for other periods than a year. Its difference from the other form of term

insurance is that at the end of the period the insured cannot continue without another medical examination. This insurance is the cheapest form of protection and as it as effectively protects during the life of the policy as any other form of life insurance, it is the most advisable to buy in business matters which have a definite time limit. To protect one's interest in a five year partnership, or a three year contract or another business uncertainty whose date of termination is fixed, a non-renewable term policy is a valuable safeguard. These policies should be much more frequently taken out than they are. Many men realize the necessity of this protection for their business associates, but the forms of policies which the agents offer them are so costly that they do not buy the protection which they could get cheaply in non-renewable term insurance.

As the necessity for protecting one's family is not for a fixed period and is not a business transaction, so this form of non-renewable term insurance is not fitted for family protection. Best for business purposes it is the worst for family purposes. Where a man desires to get the greatest amount of insurance protection for his family that he can pay for, what is called renewable term insurance is the cheapest. This costs more than non-renewable term policies, because it includes the provision that the policyholder

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has the option of renewing the policy without medical examination. Under this plan the cost of insurance protection increases at the end of every term. If the policy is what is called yearly renewable term the premium increases every year. If it is a 5 year renewable term it increases every 5 years, or if the term is 10 years the premium rate increases every 10 years. These policies are usually issued for five or ten year terms, as the annually renewable policies require more attention and care on the part of the policyholder without corresponding advantage.

Where a young man has good business prospects and requires a great part of his surplus earnings to create a home or to extend his business or for other necessary purposes, the only way that he can secure adequate protection for his wife and children is with a term policy, because he cannot afford to buy the necessary amount of protection in the more expensive policies. It should always be kept in mind that whether the policy is a double endowment with an \$85 premium per thousand, or a single endowment for \$51 or a deferred dividend for \$28, or a non-participating policy for \$21, or a 10 year term for \$15, or an annual term for \$13, the amount of insurance protection is exactly the same and the payment to the widow of the policyholder is exactly the same—\$1,000 in each case. What the additional premium charges are for is not ad-

ditional life insurance protection either in security or in amount, but for a reserve which is necessary in a level premium policy or for the promise of dividends, or endowment or other investment payments payable not to the beneficiaries after the death of the insured, but only to the insured provided he lives long enough.

All term insurance is cheaper in early life and costs more in old age than if the insured takes out a straight life level premium policy.

Level premium insurance is where the insured pays the same premium every year. Instead of the premium rate increasing every year as in a yearly renewable term policy, or every 5 or 10 years as in longer term policies, the rate is the same every year. Necessarily it is higher than the term rate in the beginning, and lower than the term rate in the end. The excess over the term rate in all the earlier years is required to be set aside and invested. This is called the reserve, and in the Old Line companies it constitutes the bulk of the assets. It is in no sense a surplus, for every dollar of it and its interest represents an excess charge in youth to avoid the naturally high premium rate of old age. It is a liability as well as an asset. Since the average expectation of life of a man in good health at 21, is $41\frac{1}{2}$ years, the payments for a level premium policy must exceed for the first half of this term, the cost of term insurance. Where a man is on

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salary or with a fixed income, which in reasonable likelihood will not increase more than the increase of his family requirements, a level premium policy is better for him to take out than a term policy. It costs more in the beginning, but he gets more protection for the same annual premium in his old age.

Any man could make his term insurance equivalent to a level premium insurance by simply taking the difference in cost and putting it in a savings bank to compound at $3\frac{1}{2}$ or 4 per cent. interest. If he did this regularly and systematically and kept from encroaching on his savings, he would be better off with a renewable term policy than with a level premium policy. If he died during the period when his level premiums exceeded the cost of term insurance, he would be the gainer by the amount of his accumulated deposits in the savings bank. If he lived for a long time his savings bank deposits would be gradually drawn upon and eventually exhausted by the increase in the annual cost of his term insurance. The mathematics and bookkeeping involved in this process are too cumbersome for it to be successful with most men.

So it can be stated in general as between these two forms of insurance that both are good, the renewable term is cheapest in the beginning and the level premium is the easier to carry in the end. Which is the

better to buy depends on the policyholder's income and prospects, on his family and business conditions, on his habits of thrift and self control. The weaker a man's will power and the more his likelihood to trench upon his savings, the better for him is the level premium policy.

But level premium policies are of many kinds, divided into two general classes, non-participating or straight life and dividend, and the dividend policies are divided into annual and deferred dividends.

A straight life level policy is the simple contract of the policyholder to pay so much money a year, the amount depending on his age when he insures and the company in return agrees on his death to pay his beneficiary the face of the policy. If the mortality is higher than the American Experience Table, if the investment returns are lower than the reserve estimate, and if the expenses of management exceed the expense loading, the company cannot call on the policyholder for any additional premium as in assessment insurance. Also the policyholder is entitled to no return of anything except in case he may surrender his policy and take its surrender value. If the mortality is less than the table the company gains; if the rate of interest it gets on its investments is higher than the reserve rate, the company gets that sum; and if the actual expenses of management are less than the ex-

pense loading, the company also profits by that.

As it is obvious that any insurance company which exceeds its mortality table, falls below its reserve rate of interest and exceeds its expense loading must shortly become insolvent, it follows that in theory a dividend policy is better for the policyholder than a straight life policy. In fact all companies make their premium rate so high that there is only one of the standard recognized companies not conducting an industrial business where the mortality is greater than the table and the investment return less than the reserve requirement. The policyholder should get the benefit of both these; but in practice, mismanagement, dishonesty and extravagance, have so swallowed up the savings and overrun the allowance for expense loading, that it is only in some companies that the straight life policy is not cheaper than the dividend policy. The companies which sell both, charge more for a dividend policy than a straight life policy, and this excess charge, as a rule, amounts with interest to more than the dividends.

The tables in the statistical appendix with the explanations of how to use them will enable the policyholder to figure out these results for himself. It is not the province of this book to advocate one company or to condemn another. A company which under a capable and honest president is returning good divi-

dends today might under his successor go to the other extreme. The dividends which any insurance company pays depends on its management, just as the amount of dividends which a boot and shoe factory or a cotton mill, or a farm or store, depend on the sagacity, honesty and ability of its manager. Whenever investment in any shape is combined with life insurance the investment part is no different from any other investment enterprise except in its excessive cost of management.

Taking all the companies as they run and averaging their returns, a policyholder would do better to take out a straight life at the lower cost than a dividend policy at the higher cost. No policyholder should be willing to speculate in the honesty of the President and other officials of a life insurance company. His speculations should be kept apart from his insurance protection.

The annual dividend policy has the great advantage over the deferred dividend forms in requiring an annual accounting. If the contract of the annual policy were definite so that instead of promising an indeterminate sum in dividends, it should specify that all mortality savings and all excess interest over reserve requirements should be annually credited on the next premium, such insurance would be cheaper in a well managed company than it could afford to

sell straight life policies for. Such a policy would compel the management to keep within its expense loading and the table of excess cost of management over expense loading is conclusive proof of how lack of contractual responsibilities leads to extravagance at the expense of the savings to which the policyholders are entitled.

A life insurance contract, like any other form of contract, should be definite and complete. The manner in which dividends are to be computed should be definitely and not vaguely or deceitfully expressed in the policy. No man would in the ordinary business affairs of life make a contract with another man and give the other man the power to construe the contract. Neither should he do that same thing in life insurance when he accepts and pays an excess premium for a policy which contains no definite provision as to what he will get for his excess payment.

If the annual dividend companies would simply alter their annual dividend policies by agreeing to credit annually on the next premium all mortality and reserve savings, these would be the best and cheapest form of level premium policies to buy, but until they do what they should do, every policyholder in an Old Line company who decides on a level premium policy should carefully investigate before paying higher premiums for future dividends.

As regards the many forms of combination investment policy the evils of these have been discussed in preceding chapters. Their disproportionate cost appears in the premium tables. There is no reason why a man should combine his investment and his life insurance in one policy and risk all his investment. If he dies any time during the investment period he forfeits all his investment savings. He should buy his life insurance protection by itself and invest his old age savings apart from his life insurance policy and in some manner that it will not have to bear its share of the heavy cost of life insurance management and administration.

There are then three good forms in which to buy life insurance protection; in a fraternal society to which the holder already belongs or joins not for its life insurance but takes the life insurance protection as incidental to his membership. Because of its lack of stability this is not recommended as the sole dependence. Second, in a renewable term policy without medical examination for the renewal. Third, in a level premium straight life policy. To which should be added an annual dividend policy, provided the company which issues it returns in dividends the mortality saving and the reserve excess interest.

CHAPTER VII

WHAT COMPANY TO INSURE IN. TESTS OF STABILITY AND SOLVENCY.

THE selection of the company in which to insure is of great importance, but less so to-day than 20 years ago when the solvency of a large proportion of life insurance companies was in doubt. Of the old established companies which have been doing business since before the panic of 1873, there is not one about whose present solvency there is any reasonable doubt. Of the newer companies which have been incorporated since, some have succeeded and some show signs of failure. The well recognized companies doing a general business in all the States, have come to such a stage of experience and steady income that their solvency is assured beyond any possibility except a panic even more disastrous than that of the early seventies, a death rate higher than has been known for 200 years, or the wholesale dishonesty of their officials.

As to the fraternal societies and other assessment organizations, the possible danger is more a lack of stability than insolvency. The symptoms of approach-

ing insolvency are so clear in any life insurance business, where the cause is other than hidden embezzlement, that the policyholders who have assessment or short term policies are in little danger of loss, and the holders of legal reserve policies are not likely to lose a high percentage of their reserve payments. The greatest danger to all such policyholders from failure or disintegration, is that their health has become impaired and that they will not be acceptable risks in some other company.

To the holders of endowment, deferred dividend, gold bond, or other forms of investment policies, the solvency of a company is of much more importance than to the holders of straight life or term insurance. To the holders of investment policies their life insurance company has taken the place of a savings bank and its failure would be as disastrous to them as the failure of a bank in which their money was deposited. To the extent to which the assets were impaired they would have lost their money, with the additional deduction for the expenses of a receivership and the scaling down of assets through forced realization. The man who is insured on the assessment plan or has only term insurance runs no such risk. The holder of a straight life policy risks only the amount of his reserve assuming that he still is in good health. The man who holds an assessment or yearly term policy

pays in advance or at stated times during the year for his year's insurance protection. The company must fail within the year and he must die within the year for him to be a substantial loser.

This distinction is explained not as an argument for any one to take the risk of insolvency or instability, but to point out again from another point of view the advantages of pure life insurance policies over combination investment policies, and to reiterate that the risk is less in a pure life policy than in some other form of policy which combines life insurance protection with something else, no matter what that something else is.

The best general tests of solvency are the annual balance sheets, and the best general tests of stability are the history of the company. This applies as well to assessment organizations as to Old Line companies.

Traditions have a great effect in any business. Men brought up in any concern naturally tend to follow the practices and customs of that particular company. The natural promotions from subordinate clerkships to heads of the departments and on to be officers and managers of the company, perpetuate a certain continuity of thought and action and sets standards of conduct. These may be departed from. A new President may throw the conservatism of his prede-

cessor to the winds. An old company may become speculative and a speculative company may become conservative, but the hereditary tendencies in any established business manifest themselves in about the same proportion as hereditary family tendencies. The child of a healthy father and mother will usually be healthy, the children of moral, well conducted, decent law-abiding parents will usually be upright citizens. While disease may not be directly inherited, the tendency to disease is, and the inheritance is as much a boon or a ban in a great business organization as in a family.

That makes the reputation and the history of any life insurance company worth the scrutiny of both prospective and present policyholders. Its history is made up of its balance sheets and annual statements and of its general reputation and flavor in the community. To an extent a company can be judged by its agents. Agents know more about the details of life insurance than the average man. The conservative agent naturally drifts into the employ of a conservative company. A pushing, hustling man on going into the life insurance business gravitates into a pushing, hustling company. The man who is personally untruthful, shifty in his statements, and evasive of his obligations, would naturally be the representative of a company of like nature. Such things

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are only indications, not conclusions or even proof. Some bad companies have good men among their agents and some excellent companies are represented in spots by bad agents. Primarily the agent is the only representative of the company whom the average policyholder knows, and the only way that the average man can judge the personality of a company is through the man whom it has representing it.

Volume of business alone is not proof of stability or solvency. The same business tests should be applied to this as to any other business. It is sometimes the case that the increased volume of business brings disproportionate cost and a line of trade that is not desirable. Where the additional business costs more than the expense of getting it and managing it, then the net result of the new business is not a gain, but a loss.

In life insurance there must be a sufficient volume of business for the law of averages to work. A company which insured only 10 men would be in constant danger of insolvency through the possibility that two or three of them might die the same year. A company which has insured 100,000 average men runs no risk whatever of any unusual mortality provided that the insured are distributed in different parts of the company and represent the average of health and habits. It is the same law of averages which, if a coin were

tossed a great number of times would result in the same number of heads and tails, while if tossed a few times only it might be all heads or all tails.

Few new life insurance organizations, whether incorporated companies, or assessment or fraternal societies, have in their early years anything like the average death rate. Their medical examinations and inspections weed out the sickly, feeble, infirm and other bad risks, and it takes some years for this effect of the initial medical selection to be neutralized by the tendency of all mankind to approximate the average. Hence, a company which has not been long in existence is confronted with the temptation to use the surplus through low death losses for its expenses of management and to fix salaries, create offices and start a general scale of expenditure beyond that which its business warrants and the mortality of the future will permit.

The starting of any life insurance organization is a more or less expensive undertaking. While its death claims at the beginning are low, its expenses of management are high. For instance, the Citizens Life of Louisville, Ky., which was started recently tells in its first annual report of the receipt of \$24,957 in premiums, and the expenditure of \$23,197 in actual expenses of management, and \$46 in taxes. Its expenses were over 92 per cent. of its premium receipts.

None of its policyholders died and no policyholder received anything. This is not said to the disparagement of this particular company, which may in the course of time develop into a stable and efficient institution, but it is cited as an example to the tendencies of a new company just starting out. Another way of making a start is that taken by the Reliance Life of Pittsburg, which began in 1903. In its first year it took in in premiums \$128,049, it paid out in expenses of management \$110,149 and in taxes \$3,696. In 1904 it took in in premiums \$167,144 and paid out management expenses \$272,177, taxes \$3,067 and in death losses \$6,334, making a deficiency of over \$100,000 in its expenditures over its receipts in premiums. In this case the men who started the company put up a subscribed surplus or guaranteed fund of \$1,000,000, which will more than counterbalance this deficit.

Other instances like this might be cited of the different ways in which new insurance companies begin doing business. They have no past and no history. They are not fully reported in the statistical tables in the index, because they have nothing in the way of statistics to present except their initial business and that information is hardly of sufficient security as to their future to warrant taking from them any other form of policy than an annual renewable or short term policy.

The same general suggestion would be made in regard to both incorporated companies and assessment organizations, recalling also the previous statement that an assessment organization which has fraternal ties is more likely to survive minor difficulties and mismanagement and extravagance than either a purely assessment organization or an incorporated company. The largest of the assessment organizations are 20 to 30 years old, although the Woodmen of the World and the Knights of the Maccabees of Port Huron which are only a little over 10 years old, have a large and growing membership and partly because of their youth they have a low death rate. The largest of the older assessment societies, the Royal Arcanum, the Foresters of Toronto, the Knights of the Maccabees and the Modern Woodmen, have all an increasing membership and a death rate which has not been growing at a more rapid ratio than the increasing age of the associations would indicate.

The main thing to investigate about an assessment organization is that its assessments are high enough. There is no use of wasting time on any such investigation of the premium rates of any Old Line company, because the rates of all of them are high enough for safety. Rather should their premium rates be investigated from the other point of view, whether they are not too high.

Only a few of the premium rates can be printed in the statistical appendix, because to print them all would take a volume several times greater than the whole contents of this book. There are thousands of rates. While many of the Old Line companies substantially agree upon certain premium rates, they do not agree upon their forms of policy, so that a full statement of the premium rates would have to include a full statement not only of what the policyholders now receive, but what they have received or may receive from the many complicated forms and options.

The standard American Experience Mortality Table gives percentages below which life insurance cannot be safely sold. That is, it fixes minimum rates to which every Old Line company adds an allowance for expenses in selling term insurance, an additional allowance for straight life insurance, and other kinds of additional allowances to investment policies. In practice, the mortality of selected lives is below the American Experience, but the rate at which it falls below varies in different parts of the country, in different years and under different conditions. It varies not only in different companies, but in different schemes of insurance. It is not safe for any company initially to agree to sell life insurance protection for a less rate than the American table indicates. Above all

things the policyholder wants to avoid any uncertainty as to payment of the face of his policy. While in general a slightly lower rate than the American table would provide for the mortality loss the simpler and safer way is to pay the full value and then if there is an overcharge, to have it credited by the omission of a part of the payments by an assessment company or the refund of the excess annually by an incorporated company.

At the age of 21, the average number of deaths per thousand is 7.85. Several assessment organizations: the Modern Woodmen, The Foresters of Toronto, the Maccabees, and a few others, had an average death rate in 1904 of less than the average death expectation at 21. This low death rate cannot continue except by the constant geometrical increase of healthy young lives which cannot keep up indefinitely. For instance, the Modern Woodmen had in 1894, 114,945 members. The organization was then 10 years old, and had a death rate per thousand of 4.59, or half the American Table Expectation of death at the age of 36. In the 5 years from 1894-1899 the Woodmen's membership almost quadrupled to 428,361. Its death rate dropped a little from 4.59 to 4.52. If this low death rate should continue, with a stationary membership, it is obvious that some members would live to be over 200 years old. The next five years its mem-

bership grew largely but in a smaller ratio of increase, to 660, 952. Its death rate promptly showed the increasing average age of its members by rising from 4.42 to 5.65.

The Woodmen is taken as an example of this actuarial law because it has remarkably low death rate and a large membership. To prevent the death rate from increasing it would have to take in every year enough additional young men as members to keep the average age of the members constant, which is a physical impossibility.

Another way of keeping the death rate down is to eliminate the old members by assessing them excessively. In the present readjustment of rates by the Royal Arcanum it is complained by some of the older members that they have been called upon to pay burdensome assessments. Doubtless the assessments are more burdensome than they were. But had the assessments been properly adjusted in the beginning there would have been no occasion to readjust them now. The Royal Arcanum is seven years older than the Modern Woodmen. While the Woodmen's membership has sextupled in the past 10 years, the membership of the Royal Arcanum has hardly doubled. Therefore the average age of the members of the Royal Arcanum is necessarily considerably higher than the Woodmen. This results in a higher death rate,

the Arcanum death rate in 1904 being 10.41 per 1,000. This is not a high death rate, but only what the American Experience calls for for men at the age of 42. There is nothing in it to cause doubt as to either the stability or the solvency of the Royal Arcanum, but it is proof that the rates in the Royal Arcanum based on its early experience are contradicted by its latter experience and that it is not safe for any life insurance organization to make contracts in advance on a much lower basis than long and approved experience indicates.

Just the contrary examination should be made of Old Line companies than of the assessment plan. An assessment association is prone to promise too much for too little. Most old line companies promise too little for what they charge. Their rates go as much above the American Experience Table as the Fraternal assessments go below it. Instead of giving their policyholders the benefits of lower mortality, of the weeding out of bad risks by medical examinations, and of interest returns higher than the reserve requirements, too many of the Old Line companies take these excess charges which should be returned or credited to the policyholder and use them to add to an already inflated expense allowance. Since most of these companies have been doing business for some years, the statistical tables are most valuable in ex-

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posing these practices. The comparative figures are taken from the company's own reports which can surely not be charged with having errors to their disadvantage. Indeed the New York Legislative Investigation proved that full, faithful and accurate reports by some of the largest companies would be much more to their disadvantage than the figures which the author has taken from their sworn reports to the Insurance Departments of the different States.

As between the different companies the author has no advice as to this or that particular one. It is obvious that a company which spends 56 or 78 or 92 per cent. of its premium receipts for its expenses of management cannot give the policyholder the same life insurance protection for the same amount of money as can a company whose expenses of management are only 15 or 17 or 18 per cent. of its premium receipts. All the income of an insurance company comes from the policyholders. That part of it comes in interest on assets already accumulated and part in premiums does not vary this statement because the assets are only the excess of preceding premium payments over preceding expenditures, and the interest on them is necessary to keep up the reserve requirements. If the company spends half of its receipts in expenses, the policyholders are only two-thirds as well off as if the company spent only one-quarter of

its receipts in expenses of management. The more the agents and officials take for themselves the less there is for the policyholder. There is no getting away from this.

Where the policyholder has a fixed premium policy, either term or straight life, the extravagance of the officials of the company does not concern him so long as they can succeed in getting in enough investment and deferred dividend policyholders every year to supply with their overcharges and excess premiums the deficiencies which extravagant management would otherwise make apparent in an impaired reserve. But the term or straight life policyholder may feel assured that a company which will waste the money of the holders of other forms of policies will not do justice by him, and that in the construction of his policy and in the application of its provisions to him and his beneficiaries, he will be dealing with a management whose standard of business honor is lower and whose regard for his interests is less than a company which is economically managed in the interest of all the policyholders, and gives the policyholders instead of the officials and agents the benefits of a low mortality, good investments and careful administration.

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CHAPTER VIII

THE COST

EXCEPT in a few fraternal societies the cost of life insurance protection varies according to the age of the insured. The variation may appear from year to year in gradually increasing premiums, or it may be commuted into a fixed premium based on the age at which the policy is taken out. In either case the premium cost is based on actuarial computations which take into account the mathematical and experience facts, full regard for which is necessary to solvency.

It may be well to explain the mathematical process of fixing actuarial premium rates which, to many policyholders, is somewhat of a mystery. All insurance is merely a distribution of loss to which each policyholder contributes an amount sufficient to cover the expenses of management in addition to the actual losses of the insured. In fire insurance the computation of cost is somewhat arbitrary since there is no even ratio of fire losses year by year like the death rate, and provision has to be made against great conflagrations and also against the moral risk. It is well known

that the percentage of fire losses is higher on insured property than uninsured property. It is also higher on property subject to foreclosure and on heavily mortgaged property than on houses which are free and clear. Every fire insurance company has a black list of men whose property it will not insure at any price because in its judgment they are addicted to the fire habit. This is an important item, and the inability mathematically to calculate a moral risk prevents the same scientific treatment of fire premiums as would be possible were the fire losses of even and regular occurrence.

In life insurance the moral risk is so slight as to form no part of the premium cost. The men who take out life insurance policies with the deliberate intention of committing suicide, are so few in number as to be unappreciable in practice. Originally almost all life insurance policies contained a clause exempting them from payment in case of suicide, but gradually this clause has been modified to apply only to suicide within one or two years after taking out the policy, and in a few companies the suicide clause is entirely omitted. The deaths by suicide of old policyholders are treated as are deaths by disease or accident. Their percentage does not vary greatly from year to year, although like deaths from heart disease and nervous diseases, deaths from sui-

cide are increasing, while on the other hand deaths from contagious diseases are diminishing. The strain and stress of modern life are increasing the death rate in certain directions about enough to counterbalance the decrease which increased medical science and skill are effecting in other directions.

The basis of the cost of all life insurance is the mortality rate. This is beyond human power to alter. Good judgment in making investments may increase the interest rate on the assets. Careful, economical administration will lower the expenses of management. These two items are more or less subject to human control. But as regards the death rate the only beneficial effect that the best management can have upon that is in the organization of the medical bureau and in the careful examination of prospective policyholders. Too much importance in the popular mind is attached to this. The effect of a careful medical examination and the sifting of prospective policyholders is very apparent in the first few years' experience. But this initial variation tends to diminish every year and the death rate of policyholders tends to approximate in old age the general experience of the past.

In practice the average death rate of policyholders is less than the average death rate of the community. In all the largest assessment societies and in all the well established Old Line companies the death rate is less

than the American Experience Table. In some cases it is very much less. Some new companies have had no deaths at all in the first year or two. But as the table printed in the appendix proves the tendency is for the death rate gradually to increase, not only in proportion to the increasing age but in a greater proportion than the increasing age until it more nearly neutralizes the initial effect of the medical examination. Some of the best managed companies have a death rate approximating the American Experience. The Connecticut Mutual, which has been one of the most carefully managed of the Old Line companies, has the highest percentage of death losses to total insurance. This is not to the discredit of the Connecticut Mutual. It is proof that it has retained its membership substantially intact until its members' policies were terminated by death instead of by lapse or surrender. Through its small volume of new business, little more than enough to replace the annual losses by death and cancellation, the average age of its members has increased and the death rate in proportion to the total insurance has of course increased.

The death payments' proportion to the total amount of insurance is not in itself a sign of either high or low mortality. The death rate per thousand at 52 is twice the death rate per thousand at 21. A new company insuring selected young lives should

show a death rate per thousand half that of an old company. The test is the ratio of the death rate to the American Experience, combined with the age and volume of new business of the company, the tendency being to approach more nearly to the American Experience as the company grows older.

Of more lasting effect than the medical examination in keeping down the death rate of policyholders is the nature of the men who take out life insurance policies. In the first place no man can take out a life insurance policy of any kind who has not the money to pay for it. He must have an income larger than his living expenses before he can insure. A man who is shiftless or incompetent or has bad habits, may pass a medical examination, but he is much more likely to fail in the financial requisite of having the money available to pay his premiums when they are due. The same physical habits which bring steady employment and an assured income also tend to good health and long life.

Again, a man of bad morals or loose living, careless of his family ties and seeking more self indulgence than the future safeguarding of his wife and children is not likely to insure. He might from a medical standpoint seem a better risk than his neighbor, but the moral qualities which permit neglect of the future of his wife and children will in their personal workings

tend to shorten his life. So powerful in their longevity results are the habits and the moral standards of men that life insurance experts would almost as lief insure the average men who desire life insurance protection, as the selected risks who have been induced by the agent's solicitations to submit to a medical examination. The judgment of some able life insurance officials is that the voluntary applicants, provided they would tell the truth about their physical condition and any hidden ailments, would be almost as desirable in the long run as the selected medical risks.

The mathematical process of computing premium payments is based on the natural premium or the mortality cost of an annual term policy which is simply the percentage per thousand which the American Experience indicates at the age of the insured. At 21 that would be \$7.85 per thousand dollars of insurance; at 25, \$8.06; at 35, \$8.95; at 40, \$9.79; at 45, \$11.16; at 50, \$13.78; at 55, \$18.57; at 60, \$26.69; at 65, \$40.13; at 70, \$61.99; at 75, \$94.37; at 80, \$144.47; at 85, \$235.55; at 90, \$454.54. At 95 the term rate would be \$1,000 for one year's premium, as the American Table theoretically contemplates that no one will live to be over 96. In the elaborate mathematical actuarial calculations there is a few cents deduction from these rates through the premium being paid at the

beginning of the year and the deaths occurring during the year. But the difference is too trifling to be considered except in an actuarial hand-book.

Level premiums are based on these same figures but they are equalized so that the policyholder pays the same sum every year instead of increasing every year. The man who insures at 21 on the level premium basis must pay \$14.80 instead of \$7.85. For the next 30 years he will pay more every year than the annual rate, but from the age of 52 on, the annual rate increases by leaps and bounds in excess of the level rate. The difference between the two is merely an advance payment by the policyholder to offset the necessity for a much greater advance should he live long. A level premium never changes while the premium of the man who insures at the natural rate keeps changing annually. Both amount to exactly the same sum at the end of an average life, the interest on the excess payments being included in the level premium total.

The amount of the net level premium is computed by first ascertaining the single payment which would provide for one thousand dollars of insurance payable at death. This amount varies according to the reserve basis, some reserves being on a three per cent. basis and others on a three and a half per cent. basis. Of one hundred thousand boys at the age of 10, 91,914 are alive at 21. Half of those living at 21 live

to be 67, but the death rate is so much more heavy after 67 than between 21 and 67 that the average expectation of life at the age of 21 is considerably less than 46 years.

Such a sum must be charged in one advance payment as is equivalent, with interest, to the face of the policy based on a date of average maturity. For a young man of 21 the payment in advance of \$336 would, compounded, amount to \$1,000 at the average time of death, three per cent. being taken for the basis. If $3\frac{1}{2}$ per cent. is the interest, a smaller advance payment would suffice. The higher the rate of interest, the smaller the initial payment. This is what is meant by the single premium, although in practice to this net cost is added the expense allowance. A single premium with compound interest is exactly equal to the natural premiums each with compound interest.

A level premium is simply the amount of this net single premium with compound interest distributed evenly over a series of years instead of unevenly as by annual term insurance. In the end, whether the insured pays for his protection on an annual advancing scale, by a level premium, by a single premium, or by 10, 15 or 20 payments, the mathematical cost on the net basis is exactly the same.

The premium tables in the appendix tell the actual

premiums, not the net premiums. The net annual rate has been summarized in a preceding paragraph. The single premium and the level premium on basis of 3 per cent. interest are for the corresponding ages (cents being omitted) twenty-one \$335 and twenty-five \$356 and \$16; thirty \$386 and \$18; thirty-five \$420 and \$21; forty \$459 and \$25; forty-five \$500 and \$30; fifty \$555 and \$36; fifty-five \$609 and \$42; sixty \$667 and \$58; sixty-five \$723 and \$76; seventy \$777 and \$101; seventy-five \$834 and \$137; eighty \$869 and \$193; eighty-five \$905 and \$293; ninety \$945 and \$503.

The theoretic cost of an endowment or an annuity policy is arrived at by a similar but reversed combination. A combination life insurance and endowment policy is theoretically the addition of the rate for life insurance protection and the cost of a simple endowment. In practice no endowment policy is sold at this price, both the net term rate and the net endowment rate being increased by expense loading.

In theory a simple endowment is the reverse of a life insurance policy. It is based on the same mortality tables reversed in their application; that is, a simple endowment would contract to give its holder an amount that he paid in with compound interest equal to the net cost of life insurance protection during

same period. The payment of \$680 at the age of 30 would amount, compounded in 10 years at 3 per cent. interest, to a little over \$900. If it were put in a savings bank at that rate the depositor would receive that amount back. If he could buy simple endowment without any other cost for expenses of management or profit to the insurance company he would receive instead of \$920, \$1,000; the difference being the value of life insurance protection during that time which was reversed in his favor, for in case he should die during the endowment period he would receive nothing. As the expense loading on the endowment policy averages over 20 per cent. taking the average expenses of the Old Line companies, and the savings bank interest would be $3\frac{1}{2}$ or 4 per cent. instead of 3, it is therefore apparent that any form of endowment policy is more costly than its benefits, and that the purchaser would be better off to deposit his money at interest than to buy an endowment policy with it.

Besides this theoretical mortality cost, every policyholder pays an additional sum which varies according to the nature of his policy and the company in which he is insured. Except some assessment organizations no policies are issued with premiums equal to, or less than this theoretic cost. To all other policies there is an addition for expenses called the expense loading. This addition averages 25 or 30 per

cent. In some forms of policies it is higher, and there may be a few forms in which it is lower. This addition is made not only to the cost of the life insurance but to the cost of the investments. It is this which makes it impossible for an investment policy to return the same compound interest returns as an ordinary investment.

The savings banks of New York State have more assets than the three greatest insurance companies. Their expenses in 1904 were \$4,441,026. The expenses of the three largest life insurance companies, the Equitable, the Mutual, and the New York Life were for 1904 \$50,950,308. The number of their policyholders almost equals the number of depositors in the New York State savings banks. The cost of management of each of the depositors' account was \$1.81. The cost of managing each policyholder's account averaged \$23.76.

This is not cited to the particular disparagement of the three largest companies, because there are smaller companies which could be selected to make a more unfavorable comparison. It is proof that the cost of management must be paid in addition to the actual disbursements to the policyholders, and that it is necessarily added to the premiums. The average cost of management in 1904 of these three companies was \$45.83 for each \$100 they paid the policyholders.

The comparison between savings banks and life insurance companies is unfair to the life insurance companies, but they invite it when they ask their policyholders to make them their savings bank and promise equal returns on an investment basis with savings banks. The proper business of a life insurance company is to fix its premiums on a just safe basis, to collect them, to invest safely the reserve which a level premium policy requires and to pay back to the policyholder all the premium and investment receipts less the lowest cost of management consistent with intelligent and safe administration. That is exactly the business of a savings bank; to take its depositors' money, to invest it at the highest rate of interest safety permits, and to return it and its interest less the lowest cost of management consistent with safe administration.

But the cost of management of a life insurance company must always be greater than that of a savings bank. The cheapest managed life insurance company in the United States costs several times the percentage of a savings bank. The medical examinations, the literature, the maintenance of several offices, the proper investigation of death claims and all the machinery of life insurance administration cost money even where no agents are employed.

The subject of the agents and their commission will be treated more fully in a chapter by itself. The

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object of this chapter is to explain the basis of life insurance cost and the manner in which different life insurance organizations arrive at the figures of their premium rates.

CHAPTER IX

HOW TO PAY IT

IT has been assumed so far in this book that the policyholder continues his premium payments as long as the policy requires. In a renewable term this would be until the high rates of old age. With a level premium policy it will be until death. In an endowment or combination investment policy it will be until the expiration of the payment term.

In many cases this assumption is not the fact. Many policyholders drop out, some because of their disgust with the workings and returns of their policies, but many more because of the sheer financial inability to meet the cost. A life insurance solicitor receiving his compensation on the commission basis naturally tries to sell policies of large amount. Also since his commission in many companies is higher on investment and deferred dividend policies than on the cheaper forms of life insurance protection, he pushes the sale of the costly policies.

Besides the agent's persuasions the policyholder is prone to assume more obligations than he can always fulfill and he is also likely to put all his life insurance

in one form and in one policy. There are a few men whose earnings and income do not fluctuate. There are no men who have not fluctuating demands upon their earnings and income. The result is the same whether the income diminishes or the imperative demands upon it increase. It is seldom that a man's family expenses diminish unless a smaller income forces their reduction. It is also seldom that an increased income does not bring about a somewhat more expensive scale of living and a greater total of family expenditure. The man who can regularly set aside all his surplus income or additional earnings and keep down the expenses of himself and his family rigidly to the same amount as when he was earning less, is a rare exception to ordinary human experience. These basic facts of human nature should be never regarded so thoroughly as in considering the assumption of a life insurance contract and providing for the cost of it.

Almost all life insurance companies make loans on all forms of their policies except short term insurance. They are safe in their security because they never loan over the excess payments which they have collected to meet the reserve requirements. In their advertisements some of these companies dilate on the advantages of their liberal loan policy and many policyholders assume a more expensive policy than they

would otherwise take, on the assurance that after paying a few years future premiums can be paid by loans for the company.

Besides the agent's persuasion and the temptation of the loans and surrender values offered, the greatest cause of policyholders not continuing their policies is the ordinary vicissitudes of life. The loss of employment, family sickness, unfortunate business ventures, bad crops, unwise speculations, scores of happenings which come in one or another form to most men, put them in a financial position where they cannot continue their premium payments. In some companies this falling off of policyholders amounts to more than half. In a few companies it runs as high as three fourths. In all companies it is one of the greatest sources of loss to the policyholders from which in turn the companies profit more or less.

Except in the feeling of security which it gives the protection of life insurance is not really valuable until the policy matures. Its value to its beneficiary is only when it matures. It is therefore essential not only to provide requisite life insurance protection, but to arrange carefully some way to pay for it and the worst way to arrange to pay for it is to take out a more expensive policy than a man can afford with the expectation of paying premiums by borrowing money on it.

Life insurance should form part of a general sav-

ings plan. Its amount should not demand all the savings because then there would be no margin or lee way. Also the amount set aside for life insurance protection should not be impaired by expending it on costly investment policies, but used to secure the greatest amount of safe life insurance protection at the lowest premium cost. A man must have some saving capacity or he cannot take out a life insurance policy, put any money in a savings bank, buy a home or do anything else which requires a surplus over his expenditure. These are all desirable things, but they all cost money and no man whose personal and family expenses equal his income can get any of them unless he reduces his expenditures or increases his earnings.

These three things should be considered together, and not separately: first, life insurance protection, second a home, third savings. As the life insurance protection is in one sense the cheapest and its contingent value is the greatest in proportion to its cost, it should be placed first and the other two regarded as supporters and bolsters of the life insurance protection. If it is a question of whether to buy instead of rent and take out a life insurance policy or of putting the money in a savings bank or paying life insurance premiums with it, the life insurance should always be put first. But it should not be put first to the ex-

clusion of the others nor taken to such an amount that there is no reserve saving capacity to fall back upon.

If every man with a wife and children starts out with a purpose of protecting them against want, of sheltering them in a home of his own and of providing them and him against sickness or old age, he will naturally apportion his saving capacity to try his best to do all these things.

How much they can save few men know till they have to. Many a man with a good income and prosperous circumstances thinks that he and his family are living as economically as they can and that the margin of his savings could not be increased, but if his income were to be reduced below his present expenses, necessity would compel him and his wife to find a way to live within that. Meanness and niggardliness are the opposite faults in expenditure to those which most American families manifest. Even the ordinary economy which business competition compels in business life is practiced in few American homes. The shopkeeper whom his competitors force to look after every item of his expense, to buy the cheapest and to sell on a narrow margin, rarely carries these principles into his family expenditure and even if he attempts to there, he is less likely to apply them to his personal expenditure. The manufacturer does not practice in his home what he insists upon in his business. Men on

salaries live as if their salaries were sure to increase and never to diminish. A farmer gauges his expenditures on his prosperous years and too often tides over bad years by borrowing instead of fixing his scale of living on the bad years and saving the surplus in the years of prosperity.

If a man postpones setting aside his savings until after his personal and household expenditure, the savings will suffer. The first rule is to do the saving first. A man on salary should pay his life insurance premium and his deposits in a savings bank before he pays his current bills. If his salary is \$100 a month and he decides to save \$20 he will find that unless he pays the \$20 first to his savings account there will be some additional expenditure, some personal luxury, some household item which will cause that month's general expenditures to exceed \$80, and will encroach upon the \$20 savings. The only way to keep the savings account going is to regard it as the most insistent and inexorable creditor of all and to pay it first. If the butcher's bill is high cut down the supplies from the butcher; if the grocer's bill goes over its apportionment get along with less groceries; if the cigar account, the entertainment account, the clothing account, or any one of the multitudinous items of ordinary general expense runs over what it should, cut that down or cut down some other item of general ex-

pense instead of encroaching on or borrowing from the savings fund.

To take the case of the hundred dollars a month man because it is a simpler illustration where the income is a regular salary. His saving capacity should be \$240 a year; if anything more, rather than less. Six thousand dollars at four per cent. would return an amount equal to his saving capacity. At the age of 30 he could buy this amount of insurance protection for \$75 a year, taking the cheapest form of policy—a yearly renewable term. The first cost of a 10 year renewable term would be only \$9 more at first and he had better take that, as it costs no more in the end and simplifies his arithmetic. This amount of insurance protection would cost $\frac{1}{3}$ of his savings, that is by paying $\frac{1}{3}$ of what he can save to an insurance company he has a guarantee that should he die within 10 years, his saving capacity will be continued permanently for the benefit of his wife and children. He should not take the whole six thousand dollars in one company, and by no means in one policy. This protection would be for 10 years only; if he desired to continue it, it would cost him over \$100 a year for the next 10 years and almost \$200 a year for the 3rd 10 years. It would not be advisable in a permanent savings plan to rely solely on this.

Besides this cheapest form of insurance protection

he should provide for permanent protection no matter when he dies. A level premium policy does this. The level premium policies as has been explained before are of three kinds, non-participating, annual dividend and deferred dividend.

With a non-participating policy he is certain of the exact amounts which he will pay and receive. With an annual dividend policy in a company with a low expense rate and honestly and intelligently managed, he will receive insurance protection at about the same cost, a little more for the first few years and a little less later on in life, than if he had a non-participating policy. A deferred dividend policy is not advised for the reasons already stated.

Assuming that one-third of the savings are paid initially for term insurance, there are $\frac{2}{3}$ to be used for other purposes. One of these two-thirds should be used to buy from a conservative trust company a non-forfeitable endowment which matures either at a fixed future date or at death and which cannot be sold or borrowed upon. The difference between this form of endowment and a combination endowment policy is that where a pure endowment policy is sold, whether in connection with or without life insurance, the holder must live the full endowment term to receive anything and if he dies before the expiration of the endowment period he forfeits everything, both payments and in-

terest. By buying a non-forfeitable endowment from a trust company where no medical examination is required and the time of death is immaterial to the contracting company, the holder takes no risk except the solvency of the company, which of course he should examine most carefully. An endowment contract of this nature is a protection against old age. It also adds to the amount of life insurance protection and the regular requirements of payments for it are as insistent as by a life insurance company.

The other third of the savings should be put in the savings bank where they can be used at any time should emergency demand. Wherever a man's employment or the stability of his occupation warrants it, the savings bank account should be looked forward to as the foundation stone of the family home. It should grow into the ownership of a house which would be the property of its occupiers and which would also add to the protection which the life insurance policy would help make permanent. Membership in a Building and Loan Association could well take part of the Savings Bank third. These associations, in helping their members to build their own homes are of great value, but the man who puts part of his savings in one of them *should be sure that it is controlled by his neighbors and himself*, and that its management, investments and loans are subject to their and his personal scrutiny.

This savings bank fund should be in as many accounts as there are members of the household. The wife should have her account and the children should have theirs. If in the management of the business affairs of the household partnership which come under her personal supervision the wife is enabled to make some saving and to have a little surplus, that should be hers, and it should go into her own savings account.

The \$100 monthly salary or the earnings or the income of the husband, whatever they may be, are as much his wife's and his children's as they are his, and in the apportionment of their expenditure it should be made to the personal and individual interest of every member of the household to practice economy and thrift.

But to return to the more specific subject of how to pay the cost of life insurance from the general saving scheme of which it is the most essential part. Every year the difference between the cost of annual term insurance and of level premium insurance should be used to buy a level premium insurance policy. A thousand dollars is plenty large enough for any one of these policies. It should be dated on the day that the month's salary comes in or that the return for the crops is due or when some other receipt of money is expected. This premium will be between seventeen

and twenty-five dollars according to the company and whether the policy is a non-participating or a dividend policy. At first the premiums should be fixed semi-annually so that each thousand dollar policy would cost only \$10 twice a year. Any man can afford to pay that much. Even if the income is \$200 a month or \$500 a month instead of \$100, or if it is \$50 instead of \$100, the advice is the same to take out small policies. Only keep on taking them out,.

Assuming that the initial protection has been provided for by a low priced term policy, it should be considered that this policy will cost more from time to time while a level premium policy does not, and it should be arranged gradually to take out level premium policies in addition to term insurance. Avoid all single premiums or 10 payment or 20 payment or anything except these two primary forms of insurance. If a man is a member of a fraternal association which insures the lives of its members he might well place part of his insurance with it. But he should first thoroughly assure himself of its stability and solvency.

By this method his insurance protection would gradually increase every year. As the term insurance became too costly it could be dropped, its place being taken by the results of the endowment which would have matured before the term rate became very high.

The other insurance would be continued until its maturity at death.

This provides for a series of small payments instead of big lump payments. It provides for a graduation of savings in different forms so that adversity would not affect them all. It gives more insurance protection at all times than an expensive policy and it guards against the forfeiture or lapse which so often eventuate from high premiums.

It is what any man can do and what every man should do. The savings bank deposits and the endowment fund would both have to be swept away before the insurance protection became vulnerable. Even then the insurance protection would not be all bound up in one policy but distributed in a number of companies and policies, some of which should certainly be held until the last.

And to hold insurance protection intact, the policyholder should see that every policy which he takes out prohibits him from borrowing money on it, or from forfeiting it, or from surrendering it, and contains the sole guarantee that should his premiums be paid in full, his wife and children will receive the full face of the policy, and should the premiums not have been kept up, they will receive whatever protection he has already paid for. Let his policy contain only that and nothing more, and he will have removed any op-

portunity of yielding to any temptation or adversity to deprive his wife and children of the last protection which he in his more prosperous days had provided for them.

CHAPTER X

EXPLAINING THE TECHNICALITIES FORFEITURES AND LAPSES, SURRENDER VALUES, RESERVE, SURPLUS, PAID UP INSURANCE AND OTHER INSURANCE TERMS DEFINED.

LIKE every other business life insurance has developed a terminology of its own. Its technical terms are well understood by every agent and insurance man but they have little more intelligible meaning to the public than the terms used in chemistry or geology or botany. There is no necessity for all these technical expressions, and when life insurance companies restrict their business to the simple sale of pure life insurance, the occasion to use so many technical terms will vanish. However, they are of common occurrence in life insurance literature, they appear in almost all life insurance policies, they are fluently used by the agents and the public are entitled to understand them.

A life insurance policy is the printed contract between the company which assures and the policyholder. It is the only contract which the policyholder has. He has no rights except what this printed

contract give him. He is supposed to be thoroughly familiar with all its provisions and should there be any dispute, any court in which he brings suit will simply construe the printed policy. Nothing the agent says or any literature which the agent may give the policyholder form part of the policy unless the policy itself says so.

The policyholder is the man who makes the contract and who is usually the one whose life is insured. In a business transaction where a man has an insurable interest in another's life he may become the holder of a policy on another man's life, but in the few cases where this is done it is usually by assignment, the insured being almost invariably the policyholder. Another exception to this is in the insurance of infants in industrial companies which is a form of gambling, as no one can financially have an insurable interest in an infant's life unless the infant is a freak earning money in some show.

The beneficiary is the one whose name is inserted in the policy, as the recipient of the payment should the policyholder die during the life of the policy. The beneficiary may be either irrevocable or revocable. Where a man is insuring for his wife's benefit he should take pains to be sure that she is an irrevocable and not a revocable beneficiary, as there is a question in some states whether, when a policy is subject to as-

signment and revocation a policyholder who becomes insolvent or in debt is not liable to be ordered by the court to turn the policy over to the benefit of his creditors. Both for his wife's sake and his own he should make her an irrevocable beneficiary subject to her death before his, in which case he should name their children as her irrevocable successors. As life insurance for the benefit of the members of one's family is a gift, the giver should safeguard his gift the same way as any other gift so that no business misfortune may imperil it.

The premium is the amount which the policyholder, agrees to pay.

The application blank is the written request for a policy which the policyholder signs.

The medical examination blank is a series of questions and answers which the company's physician puts to the prospective policyholder and which the policyholder warrants to be true. Great care should be exercised in this respect as in case of contest or litigation this medical blank may be important evidence in behalf of the company. The policyholder should be sure that neither the blank which he signs nor his policy contains a waiver on his part of the protection with which the law surrounds the reputation and interest of the dead in forbidding any physician to testify as to anything learned through his professional relation

with his patient. No man should sign a waiver to enable a life insurance company after his death to call his physician to testify. If the company insists on this the policyholder should refuse to take out a policy in that company.

A severe medical examination is in a policyholder's interest if he can pass it. He should take pains to answer only those questions which he can truthfully and accurately answer and what he does not know he should not guess at, but instead see that there is inserted the answer "I do not know." Leave no spaces blank.

These medical blanks contain a series of questions as to the policyholder's health and as to the health of his ancestors and other relatives. These answers he warrants to be true and he should take pains to warrant nothing that he does not know to be true. Some agents in their desire to secure an easy acceptance advise policyholders to soften the answers and even to make mis-statements. They point out that the policy is non-forfeitable and incontestible, "and that unless the policyholder dies in the first year or two these answers are of no particular importance." This is simply deception, as a false warranty vitiates the contract from its initiation. Deliberately false statement on a medical examination makes the contract void from its beginning and no matter how often "in-

contestible" is printed in big letters on the policy the company can refuse to pay the same on the ground that there never was a contract to be incontestible, because the falsehood of the policyholder prevented the equal meeting of the minds which is essential to the making of a contract.

A duplicate application and medical blank should always be attached to the policy, their accuracy being certified by the company. This is what a man making any other contract would insist upon that he should have a complete copy of the contract, and since the medical examination forms part of the life insurance contract he should take the same precaution about that.

The reserve is the excess charge in the early years of a policy set aside or reserved to meet the excess cost of the later years of the policy. This requirement is necessary in all level premium policies. In investment policies the whole system is different and complicated by the life protection reserve partly offsetting the endowment or investment reserve. This offset is one of the numerous ways in which the policyholder is whipsawed by a combination investment and life policy.

The annual surplus is the excess of the mortality charge over the actual mortality loss, the excess of the interest received on the reserve over the reserve requirements, and the excess of the expense loading over

the actual cost of management. In many companies the actual cost of management more or less exceeds the expense loading and the difference is made up by taking part of the mortality and reserve surplus, thereby declaring a net surplus less than that to which the policyholder is entitled.

The reserve requirement is that the securities in which the reserves are invested shall pay a certain specified rate of interest. This rate is usually 3 or $3\frac{1}{2}$ per cent. The actual rate of interest secured is usually over 4 per cent. The difference should be annually credited to the policyholder instead of being diverted to excessive expenses of management.

Dividends is a term used to describe that part of the excess premium charges which is returned to the policyholder. In practice this return is whatever the officers of the company choose to make it. Some companies return as high as 85 and 90 per cent. of their net excess charge. Other companies return hardly $\frac{1}{3}$. The marked difference appears in the statistical tables. Hardly any company returns the real surplus to which the policyholder is entitled; that is, all the mortality saving and all the excess income on the reserves.

Dividends are two kinds, annual and deferred. An annual dividend policy calls for the credit every year of whatever portion of this surplus the officials of

the company see fit to distribute. Deferred dividend policies postpone the declaration of the divisible surplus and its distribution to some distant period, 10, 15, 20 or 25 years. If in the meantime the policyholder dies he loses all claim to part in this distribution.

A non-participating policy, in consideration of the lower premium rate, releases the company from any obligation whatsoever to return any part of the surplus.

Term insurance is as its name implies, insurance for a fixed period.

Renewable term insurance is insurance for a fixed period with an option to the policyholder to renew the policy for another period without another medical examination, the renewal rate being higher than the initial rate.

A single payment policy is where the insured pays in advance the total of his premiums. This one payment is so high that it is better if a policyholder has the money to put it in a trust company under an agreement with the trust company that it will apply the interest to paying his premiums annually. Thus in case of death his heirs would receive both the amount of the single payment and the face of the policy instead of the company's having the single payment and the beneficiaries receiving only the face of the policy.

10, 15, 20 and 30 payment policies are where the policyholder pays for his insurance in a specified number of annual payments. These are only a modification of the single premium payment and the same objections apply to them. The policyholder can do better by buying the same amount of insurance protection in the cheaper forms of term insurance or a level premium policy and in investing the difference between their cost and the higher premium.

An endowment policy without life insurance protection is the agreement to pay the face of the policy at its maturity should the policyholder be living. If the policyholder dies during the term of the policy the company pays nothing.

A combination life and endowment policy is where in consideration of the policyholder paying both a life insurance premium and an endowment premium, the company agrees to pay whether he lives or dies. As it is obviously impossible for him to be both alive and dead at the end of 20 years, it is a certainty that the company will not be called upon to pay both the endowment and the life insurance. This combination policy is the costliest form of life insurance protection.

An annuity is the agreement on the part of the company in consideration of payment to it in advance, to pay a specified amount to the policyholder every year he lives. When he dies the payments stop. Pure

annuities are not common but an annuity in combination with a life insurance policy is frequently sold, the annuity payments going to the beneficiary. There are many forms of these policies all containing the essential feature that the principal sum of the insurance is never paid. In return for the policyholder making annual premium payments during his life, his wife will receive approximately the same average amount in annual annuity payments to her after his death. Taking these policies as a class, the insurance company has all its money in before it has to pay any out. The compound interest on the earlier payments make this kind of transaction profitable to the insurance companies.

A tontine policy is where all the policyholders who drop out lose any interest in the fund, and such part of their excess payments as the insurance officials think proper is divided among the survivors.

A semi-tontine is where the insured who drop out get back part of what is due them instead of all, and the remainder which is withheld from them is spent by the management, or such proportion of it as the management thinks best is distributed among the survivors.

Installment policies, gold bonds, return premiums and the like are only variations of the combination principle. They are worked out in many different attract-

ive and deceptive ways, but the principle of them is the same. The company's profit is in the compound interest on earlier payments besides the expense loading. The next chapter tells about this more in detail.

The phrase "maturity" as applied to a combination policy means that the payment has become due through the investment period ending during the life of the policyholder.

Termination by death means that the policyholder died while his policy was in force.

"Expiration" means that the policy has run out, its term having come to an end. This is applicable to term insurance.

A policy "lapses" when the policyholder fails to pay a premium when due. To surrender a policy is for the policyholder while the policy is still in force to return it to the company and receive the sum which the company pays him for relief from further liability.

The surrender value is what the company is willing to pay the policyholder to cancel his policy.

The loan value is what the company is willing to loan the policyholder on his policy. Both the loan and the surrender value are always less than what the policyholder has paid in. They are also less than what his insurance protection is worth to him.

Some of the biggest life insurance companies have

made a feature of their surrender values. No policyholder should have anything to do with them. They are merely agreements to pay him back part of what he is entitled to, and whether in the shape of a loan or a surrender the effect is the same in impairing or cancelling his life insurance protection.

Every prospective policyholder should insist upon having these options stricken out of his policies entirely so that he can not lapse it entirely, forfeit it, surrender it, or borrow money on it. To the extent to which he has paid for life insurance protection which he has not got he should receive paid up life insurance which, though costly, is much better than none. Should he become unable to make his premium payments he should take only the form of policy which automatically, becomes paid up to an amount in proportion to his excess payments. If he has taken out a level premium policy to protect his wife and children, he wants to be sure that that protection can not be taken away from them. By making a policy irrevocable and by providing that on his failure or inability to meet further premium payments, the amount overcharged him shall be commuted into paid up insurance, he greatly simplifies his policy and he can easily compare the policy rate advantages of different companies.

It should be added that short term or renewable

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term policies have no loan or surrender value and are entitled to no paid up insurance, as they contain no advance charge to meet future higher rates.

CHAPTER XI

GOLD BONDS AND GOLD BRICKS

SOME of the gold bricks which are sold in the guise of life insurance policies require a chapter by themselves. All forms of investment policies are at the expense of the policyholder as there is no possible way of profitably combining investment with life insurance in one policy. No such policy returns to the average policyholder as much money as he paid in, with interest. The Federal and State constitutions guarantee the freedom of contract and every man has the right to put his savings in an insurance company if he desires. All the author seeks is to tell what these investment policies are and to explain their workings so that a man who buys one of them will know what he is doing, and will have no right to find fault with the result when his policy matures.

Some men justify their investments in the form of combination policies by the statement that otherwise they would not save and that the fear of forfeiture and loss compels them to make regular payments when otherwise they might squander the money. If a man needs a penal clause to compel him to save, he should at least go to the trouble of figuring out the form of

penal saving which will give him the best return. A man who buys a house on an installment plan has at least as strong a penal incentive to continue his regular payments as if he bought an accumulation period investment policy. The fear of having a mortgage foreclosed should at least equal the desire to escape the forfeiture of his policy. The big difference is that the man who is paying for his own home is saving rent as his payments take the place of rent, while the man who takes an accumulation period investment policy has nothing to show for the interest on his investment if he does not both continue his payments regularly and live out the full accumulation period. The percentage of men who are unable to continue these investment policies is large. Every man should seriously consider the danger of being one of those whose accumulations are forfeited before he assumes a 20 year contract.

This comparison has to be illustrated technically. An endowment policy at the age of 30 to mature in 20 years costs \$51.50 in annual payments. A dividend policy at the same age calls for an annual premium of \$24.38. A straight life level premium policy at the same age costs \$18.74. Twenty year term insurance costs \$15 a year. These rates vary somewhat in the different companies, but the figures given above are the prices at which these well known poli-

cies could be bought from standard companies.

If the policyholder dies at any time within 20 years his beneficiary will receive exactly the same sum, \$1,000, no matter what form of policy he holds, nor how much premium he has paid, or whether he dies the next day or in the 19th year. If he lives 20 years the investment features of his policy will mature providing he has regularly paid all the premiums. For an endowment policy he has paid in premiums \$1,030 and he is sure to get \$1,000 back. For his deferred dividend policy he has paid \$487.60 and he is sure to get whatever dividends the president and actuary are willing to give him. For his straight life policy he has paid \$374.80 and he is entitled to nothing except its surrender value, should he desire to cease paying for his insurance protection then. For his 20 year term policy he has paid \$300 and his policy terminates.

This is the scale of prices presented by life insurance agents to demonstrate to the prospective policyholder how much better off he is with an investment policy. He has paid for his endowment policy \$1,030, he gets back \$1,000, and all that his life insurance protection for 20 years has cost him is \$30, or \$1.50 per annum. On the other hand his 20 year term policy has cost him \$15 per annum or 10 times as much. This is the argument the agent uses to sell

the high priced policies. In order to accentuate the argument, still higher priced policies than the 20 year endowment are, have been devised.

One of the most recent forms of these is the 5 per cent. gold bond. By paying \$66.70 instead of the ordinary \$51.50, the policy holder gets a \$1,000 5 per cent gold bond on which the insurance company agrees to pay 5 per cent. interest for 20 years. By paying \$86 he will get a double endowment at the end of 20 years, or \$2,000, when all he has paid in in premiums is \$1,730. With these gold brick policies the representation is made to the policyholder that not only does he get his life insurance protection without paying anything for it, but he gets back more money than he paid in.

The life insurance agents can hardly be blamed for selling these policies to intelligent American business men who can believe for an instant that an insurance company, a bank or any other business can continue for five years, let alone twenty, paying out more than it gets in. Yet so successful has been the sale of these policies that they have developed from the endowment and double endowment and five per cent. gold bond on to the continuous bond by which, instead of waiting for death to receive the gold bonds, the policyholder receives a bond every year and in case he dies before the whole 20 bonds have been given to him, his bene-

ficiary at once receives the remaining bonds.

All these policies are the most profitable for an insurance company to issue because they fail to give the policyholder the benefit of the progressive compound interest. Instead of being the cheapest forms of life insurance protection they are the most expensive. The investments of insurance companies pay them on an average considerably over 4 per cent. Insurance companies are not limited rigidly by law to the conservative forms of investment to which savings banks are restricted. They also charge 5 per cent. to all policyholders on policy loans, and although the private speculations of officials of some of the largest companies have lessened the net income return, still the annual reports return a good margin over 4 per cent.

Almost all business men are familiar with the ordinary compound interest tables by which \$1 earning 4 per cent. interest becomes in 20 years \$2.19. That is, \$1 deposited at compound interest more than doubles in 20 years. So a single premium payment on any form whatsoever of life insurance policy more than doubles at all ages up to over 45, taking the average longevity at that age. This is where the big profit in single premium policies accrues to the company. That test should be applied to all policies, but it becomes more complicated though no less mathematically exact, when the premiums are paid annually or

from time to time instead of in one lump sum.

Every school boy, let alone every business man, knows what simple compound interest is, but few are aware of the great difference between a dollar at simple compound interest, and a dollar paid annually at progressive compound interest. While \$1 paid at the beginning of 20 years has grown to only \$2.19, \$1 paid annually for 20 years has grown to \$30.97. Instead of \$1 compounding there are \$20 each compounding at a progressive rate.

The man who pays in \$51.50 every year for 20 years instead of paying \$1,030, has in reality paid \$1,594. For the five per cent. gold bond instead of paying only the \$300 total of the \$15 additional annual payments, he has really paid more than $\frac{1}{2}$ as much more and for the double endowment he has paid in excess of the full face value and assumed himself the risk of his dying during the 20 year period. The greater proportion that his investment is to his life insurance protection the greater is this amount of compound progressive interest which he loses. On any 20 year investment policy this compound interest amounts to more than one-half the payments.

Arranging the real cost of these respective policies a combination endowment costs \$1,594 instead of \$1,030; a deferred dividend \$752 instead of \$487; a straight life \$580 instead of \$374 and 20 year term

\$464 instead of \$300. This table proves that the straight life and the term insurance are both cheaper than the investment insurance should the policyholder be alive at the end of the 20 years. Should the term insurance policyholder desire to continue his life insurance protection after 65 he would have to pay a higher rate for the next period which more than equalizes in most companies the difference in the first 20 year cost of straight life and term insurance. Should he hold either an annual or deferred dividend straight life policy the net cost of it is the difference between \$752 and the dividends which he may receive or may have received.

It is here that the great advantage of the annual dividend over the deferred dividend is apparent. In an annual dividend policy, the policyholder gets the benefit of all the compound interest on his dividends. In a deferred dividend policy the company has this. Even if both are of equal amount in the end the man who dies before the deferred dividend period is completed loses all his dividends including the compound interest, while the man who dies with an annual dividend policy has the benefit of the dividends which he already received.

Where the policyholder dies before the investment period expires, the disadvantage of an investment policy is still more marked. Should the holder of an en-

dowment policy die at the end of 10 years he has paid in \$643. The deferred dividend policyholder has paid in \$304, the straight life \$234 and the 20 year term \$187 (progressive compound interest being included in all cases). On all these policies the company pays exactly the same sum to the beneficiary, \$1,000 in each case. The investment policyholder has paid three times as much and in return gets no more. Should he have a double endowment he would be that much the more worse off. The higher his premiums the less his life insurance protection. The endowment man who has paid in \$643 has only life insurance protection to the amount of \$357. After the 15th year he has no life insurance protection at all, the amount of his premiums and interest more than equaling his life insurance.

The gold bond delusion is still more of a reliance upon the credulity of the policyholder. The man who buys a 20 year endowment 5 per cent. 20 year gold bond is paying for \$1,300 of life insurance, not \$1,000. The company collects from him in advance the difference between 3 and 5 per cent. for 20 years. It is something like a man discounting his own note and giving the discount to some one else who guarantees that if he pays the face of the note he will receive the discounted value at the note's maturity. The public have been deluded by this because the dis-

count instead of being figured in one sum and deducted as the discount clerk in a bank does it, is strung over a period of 20 years and deducted with progressive compound interest. Any man can take the simple compound interest and the progressive compound interest tables which are printed in the appendix and apply them to the premium rates and the forms of policies in any company. The arithmetical process is easy and its application will destroy this delusion.

These gold bonds, installment bonds and other investment policies are computed not on the current rate of interest from the company's investments 4 to $4\frac{1}{2}$ per cent, but on 3 and $3\frac{1}{2}$ per cent, whichever may be the reserve basis. The difference between these two rates of interest is a gain to the company which in one large company amounted in 1904, to \$4,240,000, in another to \$4,149,000, in the third to \$4,224,000, and in the fourth to \$2,863,000. The aggregate of this excess interest is tens of millions, of which the holders of gold bonds receive not a penny.

Let the men who carefully figure the interest they pay on the mortgages on their houses, on the notes they have in the bank, or on the value of money to them, take the progressive compound interest table and try as best they can to figure out how they gain anything by paying an excess premium on which they do not receive the excess interest. A man who after go-

ing through this arithmetical process which any school boy, let alone an ordinary bookkeeper can do, then buys one of these policies, should have his name put on a list of those upon whom the Western Miner calls with a gold brick, the corner of which will stand an acid test, but the interior is good only for copper wire.

CHAPTER XII

THE AGENT

GREATER in numbers than the men in the navy of the United States and almost equal to the total force of the army are the life insurance agents. They number 69,000 besides which there are many men who occasionally act as agents but who do not make that their principal occupation. The average income of these agents is higher than the average fees of the physicians or the lawyers of the United States. Several of the larger companies which have analyzed their commission and salary payments to the agents estimate the agent's average income at \$100 a month. This does not include the industrial companies' solicitors, but only the men connected with the Old Line companies. The companies reporting to the Massachusetts Insurance Department for 1904 gave their payments for agents alone as more than \$50,000,000, in which were not included the cost of medical examinations, the home office managing and bookkeeping expenses, the office expenses and payments for printing, advertising and postage. These companies issued that year about 700,000 new policies, making the agent's receipts over \$70 for each new policy.

How much the real total of the agency cost is must be left to be estimated. It is considerably more than the actual commissions because the agency managers on salary, the inspectors, the special literature for which the company pays, office allowances and like items add substantially to the gross amount of the commissions. When it is considered that these same companies paid in the same year only a hundred million dollars of death losses, the agency system in its true proportions stands as representing an amount three quarters as costly as the death losses. It represents a cost of doing business greater than that of any other well recognized business and many times that of any other purely financial organization which has no raw material to buy, no machinery to keep in repair, and no pay roll connected with its product.

The cost of getting new business exceeds in every company except the Presbyterian Ministers Fund, the net amount received from new business. Although new policies have no surrender value or loan value and only a nominal mortality, in many cases the whole of the first two or three years' premium goes to meet the soliciting expenses. The Presbyterian Ministers Fund has only two agents. It is also the only company whose expenses of management are less than 10 per cent. of its premium income and it is the only company whose first year's expenses do

not exceed the receipts. The Presbyterian Ministers Fund is unique because it insures only ministers. But in this respect it does not differ in principle from many of the fraternal orders which sell life insurance protection only to their members. In either case the great reduction in the cost of the life insurance protection comes directly from the saving of the great cost of the present system of insurance through soliciting agents.

That the agent earns his money every man who has been the object of his solicitations can testify. It requires as much ability to be a life insurance agent as satisfactorily to practice any other profession. The successful agent must have tact, persistence, skill and an intuitive knowledge of men. He must have a certain detective instinct as to a man's weaknesses and habits. He must convince the prospective policyholder not only that he should insure but that the agent's company is the best one to insure in and that the higher priced policies are the best ones to buy.

Corresponding with the difficulties of his task, the rewards in money to a successful life insurance agent are greater than those of any other salesman. Scores of agents have made over \$50,000 a year. Some have made over a hundred thousand dollars a year and a few have received as high as a quarter million dollars in a year of unusual success at selling a

great volume of policies.

It should be noted that the agent is paid on a commission basis and that the commission is proportionately higher on the more expensive forms of policy. While a gold bond policy pays the agent in total commission about two years' aggregate premiums, a term policy or a straight life pays less than one year's premiums in commission. The reason is that the more expensive policies contain so big an excess charge that the agent can be paid twice as much to sell them and still the officials of the company will have a larger asset accumulation which, if they are so inclined they can use in part for their private profit.

The agent is not the cause, but the result of the modern system by which the largest life insurance companies attained their colossal size by combining the business of a savings bank with the business of selling life insurance protection. The smaller and more conservative companies, instead of wholly repudiating this system and conducting an educational campaign to enlighten the public as to its expensive fallacies, have been too prone, with some exceptions, to imitate rather than to expose.

If this whole modern agency system were to be abolished it would be to the financial advantage of all the policyholders who are entitled to a return of their excess premium charges. The oldest life insurance com-

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is a failure on the part of the officials to do their best duty to the policyholders.

The undue attention paid by the state commissioners to the reserve has led to the companies advertising the basis of their reserve as an inducement to policyholders. If the reserve is put on a 3 per cent. instead of a $3\frac{1}{2}$ per cent. basis it requires a larger initial premium charge to meet it and if this is unaccompanied with a return of a difference between the reserve 3 per cent. and an investment return of over 4 per cent., the policyholders are the losers by the higher reserve. If on the other hand as some companies do, this increased excess is to a great extent returned, the policyholder to that extent escapes injury. It would not be safe to continue new reserves on the $4\frac{1}{2}$ basis which was common when well secured investments would bring $5\frac{1}{2}$ or 6 per cent. interest return, but in view of the great excess in investment interest over the reserve requirements, the state commissioners should insist on the return of this excess equally with their insistent enforcement of the preservation of a safe reserve.

The requirements of some state reports are of much greater public value than others. The state commissioners have annual meetings at which efforts have been made to require a uniform report in all the states. In recent years this annual convention of state com-

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parative cost of the office expenses and medical examination which was less than 10 per cent, a figure approximated by no American company except the Presbyterian Ministers' Fund.

Of all the American companies doing a general business, only one, the Connecticut Mutual, has paid its policyholders, including everything, both death losses and dividends, an amount in excess of the premiums which the policyholders have paid in. Other companies have to a greater or less extent given the policyholders the benefit of the progressive compound interest, but none of them has done so to the extent of the old Equitable of London, and none of them can so long as they maintain an expensive agency system necessarily at the policyholder's expense.

The companies which have made the best records are indicated by the appendix tables. Some of the younger companies under their present management may in time make equally as good returns to their policyholders as some older companies have done. An older company has the advantage of the smaller ratio of its new business to its old business because the larger the ratio of new business under the present agency system the worse off are the policyholders. The record of the Connecticut Mutual is so favorable from the fact that 30 years ago it was next to the largest insurance company in the United States

and it has increased very little, while the companies which have increased more have by the very fact of the cost of the agents' commissions on the new business, been unable to make equally profitable returns to their policyholders. Two or three of these companies, however, promise to surpass the record of the Connecticut Mutual as the ratio of their old to their new business increases.

The system of insuring lives which the old Equitable of London has always practiced is to maintain an office with a medical examiner in attendance where any man desiring to have his life insured can go during office hours and if he passes a satisfactory medical examination take out a policy. With the exception of the medical examination the system is the same as that of a savings bank or a trust company where a depositor can at any time open an account on being properly vouched for, where his account will be continued as long as he keeps up the minimum balance and where the interest will be credited to him at stated periods without any further act on his part than to call with his bank book and have the interest entries made.

Some of the present day life insurance companies have been trying to minimize this agency expense, in every case to the resulting benefit of the old policyholders. Thus the North Western Mutual's new busi-

ness for 1904 cost only 131 per cent of its mortality gain and expense loading. The Massachusetts Mutual's cost 141 per cent, the Pennsylvania Mutual's 162, the State Mutual's 171, the Berkshire's 180 and the Mutual Benefit's 185. In contrast to these the Equitable's first year business cost 339 per cent, the Mutual of New York 331, Germania 350, and Washington 337. All the excess of this over 100 per cent. had to be paid out of the funds in hand which represented the assets accumulated from the excess charge upon the old policyholders. Where this excess is slight as in the first group of companies cited above, the second year's expense loading and mortality gain on the new business pays for it, but where the excess is as high as in the second group of companies cited, there is a steady drain upon the old policyholders.


Until this agency system is either radically remodeled or reduced to moderate bounds, as certain conservative companies are now engaged in doing, it will be impossible for any Old Line life insurance company to make its dividend policies the cheapest form of life insurance protection.

This is said with no purpose to criticise the agent, but in the plain statement of a mathematical fact that life insurance protection cannot be sold on the basis of its proper reasonable cost until the expense of new

business is minimized. There is no necessity for soliciting agents; branch offices with competent medical examiners would better meet the requirements of the public who desire to buy life insurance protection. Without the solicitors whose livelihood depends on their income from their commissions, and whose income depends as to its size on their sale of the most costly policies, there would be no power at work to delude the public into buying any other form of life insurance protection than sound personal business policy would dictate.

The solicitor has been justified on the ground that the public needed education as to the benefits of life insurance protection. The fact that more men buy life insurance protection in the fraternal orders than in the shape of investment policies in the Old Line companies should be in itself proof that what the public "needed" was not instruction as to the benefits of pure life insurance, and that the costly investment policies could not be sold unless the personal persuasions of an agent were set to work to befog the ordinary business intelligence of the purchaser.

Without the soliciting agent it is doubtful whether any great part of the life insurance policies sold would contain the expensive investment features. The elimination of these features would reduce both the income and assets of the companies which now sell



them, but the amount of life insurance protection would not be reduced, the beneficent effects of life insurance would not be diminished. If the Old Line companies with their superior experience, their greater actuarial knowledge, and their trained expert management could be relieved from all entanglements and devote themselves to the simple business of selling life insurance protection, they could readily combine solvency and stability with the cheap life insurance protection which the fraternal societies furnish.

The 25 largest Old Line companies had in force Jan. 1, 1905, eight and one-half billions of insurance. The 25 largest fraternal societies had in force five and one-quarter billions of insurance, or two-thirds as much. The income of the Old Line companies was \$450,000,000, and of the fraternal societies \$60,000,000—a little less than one-seventh. The payments to policyholders of the Old Line companies were \$135,000,000, or less than one-third of their income, and of the fraternal societies \$50,000,000, or five-sixths of their income. The cost of management of the Old Line companies was \$76,000,000, and of the fraternal societies \$4,500,000. The per cent. of the cost of management to income was over twice in the Old Line companies as in the fraternal societies, while the cost of management to the payments to policyholders was only 9 per cent. in the fraternal societies

to 57 per cent. in the Old Line companies.

The discrepancy here is too great to be explained in any other way than that the Old Line system of insurance is on the average needlessly costly. Its high cost is not intrinsic but is due to the combination policy scheme which requires an enormously expensive agency system. If these expenses were deducted from the total cost of the management of the Old Line companies, they would compare favorably with the fraternal societies considering that the life insurance management of the fraternal societies is not adequately paid, and that a more professional management would result in increased stability of the fraternal assessment plan of insurance. Fraternal insurance has the advantage of dispensing with the great cost of soliciting agents. It has the disadvantage of being combined with other things and of not providing sufficiently for the assured continuity of the life insurance protection. A mean between these two would combine both the stability of the Old Line plan of insurance and the lower cost of fraternal insurance. Under such a plan the present system of life insurance solicitors would be done away with and a system of branch offices would take its place.

But this will never be done without a fuller understanding of both the necessity for life insurance and its mathematics. There is nothing about these which

any one cannot learn with reasonable application, less application indeed than most ordinary business transactions require. The buying of a home requires more investigation and better judgment than the selection of a life insurance policy. If added to the home were a scheme of real estate speculation, there would be a like similarity to the combination of speculative investment features with life insurance protection. The average man had better leave speculation in any form whether in Wall Street, real estate, or life insurance to those men who make a specialty of it and whose profits come from their superior skill and knowledge over the average man who is induced to participate to his loss.

CHAPTER XIII

OFFICIAL SUPERVISION AND THE LAW

EVERY state has some form of insurance supervision and some kind of insurance law. The United States have neither, although the general powers of the new corporation department might be included to authorize its examination into insurance corporations. The United States Supreme Court has decided in several cases, Paul against the State of Virginia being the best known, that life insurance is not interstate commerce and that Congress has no power to regulate it. This does not exclude the power of supervision or examination and several attempts have been made, notably by United States Senator John F. Dryden of New Jersey, President of the Prudential of Newark, to have the United States Government take upon itself the supervision of life insurance companies.

Under the present system of State Supervision every state has the power to pass its own insurance code and to provide for its administration. The administration usually takes the form of a separate department of insurance whose head is in most cases appointed by the Governor and whose duty it is to see that the insurance law of his state is enforced. In

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some states the insurance commissioner or insurance superintendent, as he is variously called, is an elected official chosen by the Legislature or by popular vote. In more states the life insurance matters are a part of the duty of some state official, the comptroller, the auditor or the treasurer, and become one of the bureaus in his office.

The insurance laws of the different states vary much less than the manner of their enforcement. Every insurance law allows a wide discretion to the insurance commissioner and the efficiency of state supervision depends more upon the commissioner than upon the law. Among the common requirements of all state insurance departments is an annual report by all life insurance companies which do business in that state. This report is primarily to enable the commissioner or superintendent to determine the solvency of the companies. In many states this is all the commissioner does. While his powers of scrutiny under the law are ample, and he could use his authority to require the fullest information and publicity for the benefit of the policyholders, most commissioners have contented themselves with such an examination as would assure them that the reserve required by law had not been impaired. As the reserve requirement is only one of the several essentials of sound, pure, honest life insurance, to be content with its observation

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pany now doing business, the Equitable of London, which began in 1762, has no agents and never had an agent. In its volume of business it is not to be compared with the three great life insurance companies. Its total policies do not equal the new annual business of any of these great concerns, but from the policyholders point of view, the comparison is directly the other way.

In the last 100 years the old Equitable of London has received in premiums \$130,000,000, or less than one million and a half dollars a year. The average size of its policies is about \$1,000. It has paid to its policyholders \$228,000,000 or \$176 to every \$100 which it has received in premiums besides which it has on hand \$23,000,000 more to pay its present policyholders as their policies mature. Instead of using its premiums and investment income to hire agents to induce more men to insure, it has relied upon the superior intelligence of those policyholders who bought life insurance protection without costly solicitation and it gives them the full benefit of their superior intelligence. Including its present assets the Old Equitable gives its policyholders \$190 for every \$100 they have paid in. This is made possible by the progressive compound interest explained in a preceding chapter which doubles the amount of the premium receipts and has deducted from it only the small com-

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missioners has acted more in the interest of insurance managers who desire to conceal their expenses of management than in the welfare of the policyholders whose interests the utmost publicity could do nothing else but help.

In the earlier days the national convention of State Insurance Commissioners voted to require every life insurance company to make a detailed report of all its business. This was called the gain and loss exhibit. Instead of stating only the total insurance, the premium and investment receipts, the legal reserve and the payments to the policyholders, the reports under the gain and loss exhibit required analysis and detailed statement of both the receipts and the expenditures. The mortality charge and the mortality cost, the reserve requirements and the investment income, the expense loading and the real cost of management, the surrender and lapse values and the surrender and lapse payments, were all required to be stated separately so that the public could know whether their excess charges for mortality and reserve were repaid to them in dividends or whether they were diverted to excessive cost of management, or to an irresponsible surplus with which the officials could speculate to their personal profit.

This requirement of a gain and loss exhibit was in existence only a short time when at a succeeding con-

vention the officials of certain insurance companies wielded enough influence to bring about its repeal and to establish instead an official statement which conveyed little intelligible information beyond the statement of assets, insurance in force and reserve. The insurance departments of Minnesota and Wisconsin, however, refused to discontinue this valuable public statement. They have also been joined in requirements for needed additional information by the insurance commissioners of Tennessee, Missouri and several other states, none of the great Eastern or Middle States joining through their insurance departments in these laudable requirements. The reports of both Wisconsin and Minnesota are accessible to the public, and from them the data of dividends, mortality cost, investment income and other details which appear in the tables in the appendix have been compiled.

The remedy for wasteful management is primarily with the state insurance departments because, whether or not the extravagance is of an amount sufficient to warrant official regulation there is no doubt that the policyholders are entitled to full knowledge. The annual publication by the insurance department of every state of an intelligible insurance report would so enlighten the public that it would be difficult for the most adroit and persuasive agent to sell policies in a company whose extravagant manage-

ment made the cost of life insurance protection excessive. The state commissioners could legitimately and properly go much farther than they do in requiring not only a full and explicit detailed statement, but by insisting that each policyholder should receive annually a copy of it and an accounting of his individual policy.

In two or three states there are either legislative or executive attempts to prohibit deferred dividend policies. Whether or not deferred dividends should be prohibited by law, there is no doubt that deferred accountings should be abolished and that a policyholder should have the same right to an annual statement which a stockholder in a corporation or a savings bank depositor has. Without quickened public opinion there is little likelihood of the state departments being of more value than now. So long as the insurance officials guide their own supervision through their political, financial or social relations with the insurance commissioner, so long the insurance departments of the majority of the states will be managed as the insurance company officials want them managed which is not necessarily the same as for the best interests of the policyholders.

The state departments could do much more valuable work than they have been doing, by regarding themselves solely as the policyholder's agents. This point

of view has been interfered with by the custom in most of the states of collecting from the insurance companies the cost of the insurance departments so that the state officials whose fees, salaries and expenses were paid by the insurance companies, came to regard themselves to a certain extent the employees of the companies and not of the people. This system should be changed by putting all insurance departments on the same basis as any other state departments and paying them directly from the state treasury and from the general tax fund. If insurance companies are to be taxed, that is a proposition to be considered separately on its own merits. It should not be confused with the necessity for their public inspection and the state insurance officials should be entirely removed from any feeling whatsoever of direct or indirect obligation to the companies under their supervision.

It would be no cure for the present situation to abolish the insurance departments entirely and to substitute one national insurance department even if the Supreme Court of the United States could be induced to reverse itself on this point.

So long as one state insurance commissioner does his full duty the results of his investigations are available to any one who will get a copy of his report. Even during the recent years of the insurance corruption in the great companies which has just been exposed, the

reports of Wisconsin and Minnesota were invaluable indications to the student of life insurance as to what was going on. To supplant these state departments with one national department would mean that corrupt, wasteful or secretive insurance officials would have only one superintendent to deal with instead of 45. They could concentrate all their influence and all their pressure upon this one department. The testimony before the New York Legislative investigation committee that the largest New York companies were in the habit of contributing \$50,000 apiece every Presidential campaign to the political funds of the party which elected its candidate, would make it difficult for the President so elected, no matter how high minded he personally might be, to deal with their affairs with the rigor which the interests of their policyholders required. It is next to impossible simultaneously to corrupt the insurance departments of 45 states. A few of them are bound to break loose. It would be most unfortunate should the reliance of the policyholders for governmental supervision and honest publicity be confined to only one man however virtuous might be his intentions or stern his morality. The pressure of over \$2,000,000,000 of assets in the hands of able and possibly unscrupulous men would be more than one human nature should be expected to withstand.

CHAPTER XIV

DECIDE FOR YOURSELF

THE RIGHTS AND DUTIES OF THE POLICYHOLDER

MORE effective than official supervision or the law is the working of intelligent public opinion.

No man knowingly makes a bad bargain. No man consciously will pay more for anything of value than he can buy it for. Assuming that life insurance is the great philanthropic and missionary institution which the then President of the Mutual Life of New York, Richard A. McCurdy, termed it in his testimony it still remains that the policyholders would prefer to have their missionary contributions voluntary and not compulsory or hidden. It has been only through popular ignorance of the real facts that the perversion of life insurance has taken place. And it should not be overlooked that there are companies which have given their policyholders good service and have paid to their policyholders all that they could return less the necessary expenses of the costly agency system. Without the agency system, no company would have grown to any commensurate size unless the public had been so educated with the

necessity for life insurance protection that personal solicitation would have become unnecessary to secure the best class of policyholders.

If after the publicity which has been given through the press of the United States to life insurance evils, the public continues taking out insurance only when solicited and buying by preference those forms of policies which cost them most and profit the agent most, then the public deserve to have a recurrence of the iniquities which have been exposed, for the diversion of their funds resulted not so much from individual dishonesty as from the temptations to personal profit which the vast accumulations of irresponsible capital created.

The policyholder has the right first to a full knowledge of every detail connected with his insurance company. The company itself should furnish it to him and any company which does not give the public the fullest details of its business is unworthy of public confidence because it can have no other reason for its secrecy than a desire to hide some facts which might injure it. This publicity should contain specific information both as to the exact cost of management and as to the percentage which that cost bears to the premium. The cost of soliciting business should also be separately stated so that the policyholder may know how much he is paying the agent to induce him

to insure, how much he is paying for a medical examination and what are the salaries which he pays for a managing official. Every item of disbursements should be stated separately and the office and managing expenses should not be summarized in totals but given in detail both as to the salaries of the higher officials and as to the number and salaries of the minor officials and clerks. Every insurance company has all this information on its books and if it will not furnish it to the man whom its agent is soliciting to insure and the policyholder still insures in ignorance, he has no right to complain of excessive cost or bad treatment.

This right to full knowledge extends both to every item in the premium cost and to every item of expenditure. In the case of a dividend policy a knowledge of these items is necessary to enable the policyholder to determine for himself whether the company is repaying him in dividends the amount to which his initial excess premium payment entitles him. Every company charges more than the life insurance protection costs. Every mutual company is bound both by law and its charter to return to its policyholders all of the difference between its receipts and its costs. Almost all stock companies have their dividends to their stock holders limited by law or by their charter, and agree to return any excess to their participating

policyholders. To what extent this excess is returned and how promptly it is returned or credited is of great importance to the policyholder and he should make sure that he receives the information.

He has a right to all this knowledge. He has the same right to inquire into the quality and price of life insurance protection offered to him for his purchase as he has to inquire into the quality, price and value of anything else which some other man is trying to sell him. The difficulty in the past has been that men bought life insurance policies without the same ordinary investigation and inquiry which they would make in any other business transaction. How many policyholders have read every word of their policy, and understand it? How many of them have a copy of the medical examination, the statements of which they warranted? How many of them know the rate of mortality, the investment income, the salary list and the expenses of management in the company in which they are insured? They have a right to all this information but no man is likely to get his rights unless he insists upon them.

The policyholders have duties as well as rights. In a mutual company the policyholders are the electorate. If instead of voting intelligently for trustees they either do not vote at all, or give proxies to the agents to be voted as the management chooses, the individ-

ual policyholder not only fails to perform his duty to himself but he does a wrong to his fellow policyholders who are entitled to his co-operation to insure efficient management and a lower cost of their life insurance protection. It is his duty to keep vigilant watch of the management of his company and to perform his obligation to his fellow policyholders as he should perform his obligation to his fellow citizens in his vote for public officials.

No man in charge of any business will do as well without supervision as with it. Unless policyholders assert their rights the managing officials are too likely to yield to the natural tendency to regard themselves as the company and to manage its affairs in their own interest. Nepotism is not likely to flourish where the policyholders are vigilant. Managing expenses are not likely to increase where the policyholders carefully and promptly protest against any extravagance.

Every business man knows that a satisfied customer is the best advertisement. The difference is that in ordinary business transactions the customer soon knows whether or not he has got his money's worth. The man who takes out a deferred dividend or investment policy does not know for 20 years whether he has got his money's worth. Therefore every man who takes out a policy which relieves the officials from an annual accounting does his best to relax the

safeguards which surround ordinary business transaction, and which are necessary nowhere more than in life insurance.

It is the duty of the policyholder to familiarize himself with the affairs of the different insurance companies, not all of them, because that would be a mathematical task beyond what is necessary. From the tables in the appendix any man can pick out a few companies which from their reports show the least cost of management to premium receipts, the highest percentage of dividends to the total of excess charges, and then having picked out these few companies he should make a thorough investigation of them, not only of the figures as presented in their reports but of their policy forms and of their treatment of their policyholders. Other things being equal he should do business in the company in which his neighbors have done business provided his neighbors' experience has been satisfactory. If his neighbors have not been treated well, it is a reasonable supposition that he will not be treated well.

In fraternal societies the members should pay more attention to the mathematics of life insurance. It is not possible to sell life insurance long below cost and if the assessment rates are less than the American Experience indicates, they should be readjusted in order to insure stability as well as future solvency.

While the members of a fraternal society who die first are gainers in paying less for their life insurance protection than in the long run it is worth, the saving to them over slightly higher rates is not great and the members who survive will have to make up the deficiency sooner or later in some form. The principles of pure life insurance are easily understood, and the time necessary to master them is well repaid by the results.

Fraternal insurance would have a wider scope for its activities were it not for the distrust of its stability for which many compulsory reorganizations and some failures are properly responsible. Naturally in the desire of the elective officials of fraternal bodies to make a good financial showing to their members the assessments are kept down to the lowest notch, while a wiser policy would dictate slightly higher payments.

The failure of the life insurance department of an assessment organization is not disastrous to its members in good health who can pass a medical examination, because they can at once secure future protection in some other organization or in an Old Line company. But the members who are old or in bad health or whose risk a medical examiner would reject are left without any life insurance protection although they have paid for years their share of the benefits which the families of the dead members receive. It

is to this most worthy class of policyholders that the dissolution of an assessment organization brings disaster.

There would be no field for assessment insurance if the Old Line companies were to conduct their managing expenses with the same economy as the management cost of assessment insurance. On the other hand there would be no reason for the small policyholder to insure in the Old Line companies if the fraternal societies and assessment organizations conducted their affairs on the same mathematical principles of stability and solvency as are enforced by the actuarial experience of the Old Line companies. The weeding out of the Old Line companies took place 30 years ago. In their early days they tried to sell insurance at erratic cost. They failed to keep their reserves properly invested. They regarded their assets as profits instead of as liabilities to the policyholders who had contributed them. The result was that in the disastrous financial days of the early 70's about half of the existing Old Line life insurance companies went out of business, some of them into hopeless insolvency and all to the injury and financial loss of most of their policyholders.

It is the duty of the policyholder wherever he insures to take an active personal interest in the business. Whether in a fraternal assessment or in an Old Line

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company life insurance is really co-operative. From the financial point of view it is strictly co-operative because every policyholder contributes his share to pay every death loss including his own. Without these co-operative contributions any company would fail because there is no other fund except the policyholders' payments and the interest on them, from which the death losses and expenses can be paid. This is as applicable in fact to the stock companies as to the mutual companies. The stock is only a guarantee and if the premiums were not more than sufficient to pay the losses the stock capital would be impaired and the guarantee speedily vanish.

An effort is made in the tables and statistical information of the appendix to give such general knowledge as will enable a prospective policyholder to narrow down his choice to a few companies. It is not intended to recommend any one company. The sworn statements of some companies, the largest particularly, have been proven to be in some respects inaccurate and misleading. To go into details of these inaccuracies requisite for their correction would require a rehearsal of the testimony which their officials have given in the recent New York Legislative Investigation.

In one particular respect though, attention should be called to a misleading conclusion which would

result from taking their percentage of the cost of management to premiums as the actual fact. These three companies, the Equitable, the Mutual and the New York Life, besides their reported commissions to their soliciting agents on the first year's premiums have contracted to pay either bonuses or renewal commissions and against these other commissions they often allow their agents to receive advances which do not appear as disbursements chargeable, as they should be, to new business. The New York Life had an agent's association called the Nylic through which the agents received additional financial benefits besides the first year's commissions. The assets of the Nylic are in part funds secretly diverted from the New York Life's treasury and so should be included in the expenses of management from which they were excluded by a system of separate bookkeeping. To what extent the new management of these three new companies will treat the policyholder justly is to be determined by the result and not by promises or hopes. So far as term or non-participating policies are concerned, these three companies are as reliable as any because there is no doubt of their solvency, and under a term or level premium non-participating policy the policyholder is entitled to no dividends whatever and so has an interest in their amount only so far as it affects the nature of the general management of the company.

The reports of these companies for the next two or three years will indicate what the new managements are doing.

The policyholder should not confine his interest in his policy to a personal examination of the company's statements but he should see that his members of the Legislature and the insurance officials of his state are made aware that he looks to them to represent him and not the insurance managers. His state senator, his member of the assembly, and the insurance commissioner of his state should all be made aware that he for one will not tolerate any laxity on their part, that it is their duty to see that the insurance law is in the policyholder's interest and that its enforcement is solely on his behalf. Such an active rigid interest by the policyholder will remove any excuse for employing lobbyists or legislative counsel or maintaining secret boodle funds or making political contributions. The policyholders of any state are a large enough body to defeat any bill against their interest, whether it is a blackmailing attempt of some member of the legislature or an amendment desired by corrupt officers of a mismanaged insurance company.

With the publicity which has been given in the past year to life insurance affairs, there will begin a new era of life insurance in which the rights and the duties of the policyholder should stand forth foremost.

STATISTICAL APPENDIX

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SIMPLE COMPOUND INTEREST TABLE.

From 1-40 years, giving the value of \$1 principal at simple compound interest at 3, 3½, 4, 5 and 6 per cent.

Year	3%	3½%	4%	5%	6%
1	\$ 1.03	\$ 1.03	\$ 1.04	\$ 1.05	\$ 1.06
2	1.06	1.07	1.08	1.10	1.12
3	1.09	1.10	1.12	1.15	1.19
4	1.12	1.14	1.17	1.21	1.26
5	1.15	1.18	1.21	1.27	1.33
6	1.19	1.22	1.26	1.34	1.41
7	1.23	1.27	1.31	1.40	1.50
8	1.26	1.31	1.36	1.47	1.59
9	1.30	1.36	1.42	1.55	1.68
10	1.34	1.41	1.48	1.62	1.79
11	1.38	1.46	1.53	1.71	1.89
12	1.42	1.51	1.60	1.79	2.01
13	1.46	1.56	1.66	1.88	2.13
14	1.51	1.61	1.73	1.98	2.26
15	1.55	1.67	1.80	2.07	2.39
16	1.60	1.73	1.87	2.18	2.54
17	1.65	1.79	1.94	2.29	2.69
18	1.70	1.85	2.02	2.40	2.85
19	1.75	1.92	2.10	2.52	3.02
20	1.80	1.99	2.19	2.65	3.20
21	1.86	2.05	2.27	2.78	3.40
22	1.91	2.13	2.37	2.92	3.60
23	1.97	2.20	2.46	3.07	3.82
24	2.03	2.28	2.56	3.22	4.04
25	2.09	2.36	2.66	3.38	4.29
26	2.15	2.44	2.77	3.55	4.54
27	2.22	2.53	2.88	3.73	4.82
28	2.28	2.62	2.99	3.92	5.11
29	2.35	2.71	3.11	4.11	5.41
30	2.42	2.80	3.24	4.32	5.74
31	2.50	2.90	3.37	4.53	6.08
32	2.57	3.00	3.50	4.76	6.45
33	2.65	3.11	3.64	5.00	6.84
34	2.73	3.22	3.79	5.25	7.25
35	2.81	3.33	3.94	5.51	7.68
36	2.89	3.45	4.10	5.79	8.14
37	2.98	3.57	4.26	6.08	8.63
38	3.07	3.69	4.43	6.38	9.15
39	3.16	3.82	4.61	6.70	9.70
40	3.26	3.95	4.80	7.04	10.28

PROGRESSIVE COMPOUND INTEREST TABLE.

Giving the value from 1-40 years of \$1 paid annually in advance at 3, 3½, 4, 5, and 6 per cent.

Year	3%	3½%	4%	5%	6%
1	\$ 1.03	\$ 1.03	\$ 1.04	\$ 1.05	\$ 1.06
2	2.09	2.10	2.12	2.15	2.18
3	3.18	3.21	3.24	3.31	3.37
4	4.30	4.36	4.41	4.52	4.63
5	5.46	5.55	5.63	5.80	5.97
6	6.66	6.77	6.89	7.14	7.39
7	7.89	8.05	8.21	8.54	8.89
8	9.15	9.36	9.58	10.02	10.49
9	10.46	10.73	11.00	11.57	12.18
10	11.80	12.14	12.48	13.20	13.97
11	13.19	13.60	14.02	14.91	15.87
12	14.61	15.11	15.62	16.71	17.88
13	16.08	16.67	17.29	18.59	20.01
14	17.59	18.29	19.02	20.57	22.27
15	19.15	19.97	20.82	22.65	24.67
16	20.76	21.70	22.69	24.84	27.21
17	22.41	23.50	24.64	27.13	29.90
18	24.11	25.35	26.67	29.53	32.76
19	25.87	27.28	28.77	32.06	35.78
20	27.67	29.26	30.96	34.71	38.99
21	29.53	31.32	33.24	37.50	42.39
22	31.45	33.46	35.61	40.43	45.99
23	33.42	35.66	38.08	43.50	49.81
24	35.45	37.95	40.64	46.72	53.86
25	37.55	40.31	43.31	50.11	58.15
26	39.71	42.75	46.08	53.66	62.70
27	41.93	45.29	48.96	57.40	67.52
28	44.21	47.91	51.96	61.32	72.64
29	46.57	50.62	55.08	65.43	78.05
30	49.00	53.42	58.32	69.76	83.80
31	51.05	56.38	61.70	74.29	89.89
32	54.07	59.34	65.21	71.75	96.34
33	56.73	62.45	68.85	84.06	103.18
34	59.46	65.67	72.65	89.32	110.43
35	62.27	69.00	76.59	94.88	118.12
36	65.17	72.45	80.70	100.62	126.26
37	68.15	76.02	84.97	106.71	134.90
38	71.23	79.72	89.40	113.09	144.05
39	74.40	83.55	94.02	119.80	153.76
40	77.66	87.51	98.82	126.84	164.04

COMPOUND DISCOUNT TABLE.

Giving the present value of \$1 receivable at from 1-40 years hence at 3, 3½, 4, 5 and 6 per cent. interest.

Year	3%	3½%	4%	5%	6%
1	\$.970	\$.968	\$.961	\$.952	\$.943
2	.942	.933	.924	.907	.890
3	.915	.901	.889	.863	.839
4	.888	.871	.854	.822	.792
5	.862	.842	.821	.783	.747
6	.837	.813	.790	.746	.705
7	.813	.786	.759	.710	.665
8	.789	.759	.730	.676	.627
9	.766	.733	.702	.644	.591
10	.744	.708	.675	.613	.558
11	.722	.685	.649	.584	.526
12	.701	.661	.624	.556	.497
13	.681	.639	.600	.530	.468
14	.661	.617	.577	.505	.442
15	.641	.596	.555	.481	.417
16	.623	.576	.533	.458	.393
17	.605	.557	.513	.436	.371
18	.587	.538	.493	.415	.350
19	.570	.520	.474	.395	.330
20	.553	.502	.456	.376	.311
21	.537	.485	.438	.358	.294
22	.521	.469	.422	.341	.277
23	.506	.453	.405	.325	.261
24	.491	.438	.390	.310	.247
25	.477	.423	.375	.295	.233
26	.463	.408	.360	.281	.219
27	.450	.395	.346	.267	.207
28	.437	.381	.333	.251	.195
29	.424	.368	.320	.242	.184
30	.412	.356	.308	.231	.174
31	.400	.344	.296	.220	.164
32	.388	.332	.285	.209	.155
33	.377	.321	.274	.199	.146
34	.366	.310	.268	.190	.137
35	.355	.300	.253	.181	.130
36	.345	.289	.243	.172	.122
37	.335	.280	.234	.164	.115
38	.325	.270	.225	.156	.109
39	.315	.261	.218	.149	.103
40	.306	.252	.208	.142	.097

ANNUITY TABLE

Showing the present cost of \$1 receivable annually for from 1-40 years at 3, 3½, 4, 5 and 6 per cent. interest.

Year	3%	3½%	4%	5%	6%
1	\$.97	\$.96	\$.96	\$.95	\$.94
2	1.91	1.90	1.88	1.85	1.83
3	2.82	2.80	2.77	2.72	2.67
4	3.71	3.67	3.63	3.54	3.46
5	4.58	4.51	4.45	4.32	4.21
6	5.41	5.32	5.24	5.07	4.91
7	6.23	6.11	6.00	5.78	5.58
8	7.02	6.87	6.73	6.43	6.21
9	7.78	7.60	7.43	7.10	6.80
10	8.53	8.31	8.11	7.72	7.36
11	9.25	9.00	8.76	8.30	7.88
12	9.95	9.66	9.38	8.86	8.38
13	10.63	10.30	9.98	9.39	8.85
14	11.29	10.92	10.56	9.89	9.29
15	11.93	11.51	11.11	10.38	9.71
16	12.56	12.09	11.65	10.83	10.10
17	13.16	12.65	12.16	11.27	10.47
18	13.75	13.19	12.65	11.69	10.82
19	14.32	13.71	13.13	12.08	11.15
20	14.87	14.21	13.59	12.46	11.47
21	15.41	14.69	14.02	12.82	11.76
22	15.93	15.16	14.45	13.16	12.04
23	16.44	15.62	14.85	13.48	12.30
24	16.93	16.05	15.24	13.79	12.55
25	17.41	16.48	15.62	14.09	12.78
26	17.87	16.89	15.98	14.37	13.00
27	18.32	17.28	16.33	14.64	13.21
28	18.76	17.66	16.66	14.89	13.40
29	19.18	18.03	16.98	15.14	13.59
30	19.60	18.39	17.29	15.37	13.76
31	20.00	18.73	17.58	15.59	13.92
32	20.38	19.06	17.87	15.80	14.08
33	20.76	19.39	18.14	16.00	14.23
34	21.13	19.70	18.41	16.19	14.36
35	21.48	20.00	18.66	16.37	14.49
36	21.83	20.29	18.90	16.54	14.62
37	22.16	20.57	19.14	16.71	14.73
38	22.49	20.84	19.36	16.86	14.84
39	22.80	21.10	19.58	17.01	14.94
40	23.11	21.35	19.79	17.15	15.04

AMERICAN TABLE OF MORTALITY.

On which all Old Line Insurance Premiums are based.

Age	Number Living	Number Deaths Each year	Death-Rate Per 1,000 Each year	Expectation of Life
10	100,000	749	7.49	48.72
11	99,251	746	7.52	48.08
12	98,505	743	7.54	47.45
13	97,762	740	7.57	46.80
14	97,022	737	7.60	46.16
15	96,285	735	7.63	45.50
16	95,550	732	7.66	44.85
17	94,818	729	7.69	44.19
18	94,089	727	7.73	43.53
19	93,362	725	7.76	42.87
20	92,637	723	7.80	42.20
21	91,914	722	7.85	41.53
22	91,192	721	7.91	40.85
23	90,471	720	7.96	40.17
24	89,751	719	8.01	39.49
25	89,032	718	8.06	38.81
26	88,314	718	8.13	38.12
27	87,596	718	8.20	37.43
28	86,878	718	8.26	36.73
29	86,160	719	8.34	36.03
30	85,441	720	8.43	35.33
31	84,721	721	8.51	34.63
32	84,000	723	8.61	33.93
33	83,277	726	8.72	33.21
34	82,551	729	8.83	32.50
35	81,822	732	8.95	31.78
36	81,090	737	9.09	31.07
37	80,353	742	9.23	30.35
38	79,611	749	9.41	29.62
39	78,862	756	9.59	28.90
40	78,106	765	9.79	28.18
41	77,341	774	10.01	27.45
42	76,567	785	10.25	26.72
43	75,782	797	10.52	26.00
44	74,985	812	10.83	25.27
45	74,173	828	11.16	24.54
46	73,345	848	11.56	23.81
47	72,497	870	12.00	23.08
48	71,627	896	12.51	22.36
49	70,731	927	13.11	21.63
50	69,804	962	13.78	20.91
51	68,842	1,001	14.54	21.20
52	67,841	1,044	15.39	19.49
53	66,797	1,091	16.33	18.79
54	65,706	1,143	17.40	18.09
55	64,563	1,199	18.57	17.40
56	63,364	1,260	19.88	16.72
57	62,104	1,325	21.33	16.05
58	60,779	1,394	22.94	15.39
59	59,385	1,468	24.72	14.74
60	57,917	1,546	26.69	14.10
61	56,371	1,628	28.88	13.47
62	54,743	1,713	31.29	12.86
63	53,030	1,800	33.94	12.26
64	51,230	1,889	36.87	11.67
65	49,341	1,980	40.13	11.10

Age	Number Living	Number Deaths Each year	Death-rate Per 1,000 Each year	Expectation of Life
66	47,361	2,070	43.71	10.54
67	45,291	2,158	47.65	10.00
68	43,133	2,243	52.00	9.47
69	40,890	2,321	56.76	8.97
70	38,569	2,391	61.99	8.48
71	36,178	2,448	67.66	8.00
72	33,730	2,487	73.73	7.55
73	31,243	2,505	80.18	7.11
74	28,738	2,501	87.03	6.68
75	26,237	2,476	94.37	6.27
76	23,761	2,431	102.31	5.88
77	21,330	2,368	111.06	5.49
78	18,961	2,291	120.83	5.11
79	16,670	2,196	131.73	4.74
80	14,474	2,091	144.47	4.39
81	12,383	1,964	158.60	4.05
82	10,419	1,816	174.30	3.71
83	8,603	1,648	191.56	3.39
84	6,955	1,470	211.36	3.08
85	5,485	1,292	235.55	2.77
86	4,193	1,114	265.68	2.47
87	3,079	933	303.02	2.18
88	2,146	744	346.69	1.91
89	1,402	555	395.86	1.66
90	847	385	454.54	1.42
91	462	246	532.47	1.19
92	216	137	634.26	.98
93	79	58	734.18	.80
94	21	18	857.14	.64
95	3	3	1,000.00	.50

The "Expectation of Life" is the average number of years which healthy persons of any given age have yet to live.

ACTUAL MORTALITY

Central Life.....	43.85
Provident Life.....	50.17
Des Moines.....	51.25
Pacific Mutual.....	55.00
National Vt.....	55.91
Conn. General.....	56.28
Conservative Life.....	56.81
Columbian Nl.....	57.31
State Mutual.....	60.19
Union Central.....	64.15
Northwestern Mutual.....	66.37
New England Mutual.....	66.95
Aetna.....	67.18
Equitable Iowa.....	68.30
Penn. Mutual.....	68.50
Union Mutual.....	70.19
Mass. Mutual.....	70.23
Fidelity Mutual.....	70.33
Phoenix Mutual.....	73.17
Germania.....	73.73
Canada.....	74.48
Manhattan.....	75.79
National U. S. A.....	78.47
Michigan Mutual.....	79.01
Equitable N. Y.....	80.06
Home Life.....	80.41
Mutual Benefit.....	80.88
New York Life.....	82.29
Mutual Life.....	83.87
Travelers.....	84.48
Security Mutual.....	84.81
Washington.....	86.73
Conn. Mutual.....	89.07
Provident Savings.....	98.43
Hartford Life.....	98.61
United States.....	100.99

This table gives the percentage for 1904 of the actual mortality to the American Experience Table.

The difference in dollars which these percentages indicate appears in the Gain and Loss Exhibit.

PREMIUM RATES

The premium rates of all Old Line Companies are substantially the same for the same kind of policy. In few cases is the difference in initial cost over 5 per cent. The greatest difference is in real returns of dividend and investment policies. So far as non-participating policies are concerned it makes little difference in what well established company the policy is taken out. As regards all other policies the difference is great, not so much in the first cost as in the return of excess cost as dividends, which the dividend table and the gain and loss exhibit more fully show.

The rates given below are about the average per \$1,000.

Age	21	25	30	35	40	50	60
1	\$11.75	\$12.00	\$12.50	\$13.50	\$14.50	\$20.75	\$40.00
2	12.50	13.25	14.00	15.00	16.75	29.00	62.50
3	15.50	17.00	19.75	25.50	27.00	40.00	64.00
4	19.50	21.35	24.25	28.00	32.75	48.00	77.00
5	50.00	50.50	51.25	52.50	54.25	62.00	82.50
6	65.00	65.70	66.75	68.25	71.00	81.00	105.50

No. 1 is annual renewable term insurance.

No. 2 is ten year renewable term insurance.

No. 3 is level premium non-participating.

No. 4 is level premium dividend policy, the initial premium charge being the same whether the dividend is annual or deferred

No. 5 is 20 year endowment.

No. 6 is 20 year endowment five per cent. gold bond.

ASSESSMENT PREMIUM RATES.

The cost of insurance in fraternal societies conducted on the assessment basis fluctuates greatly. Instead of being almost uniform as in the Old Line Companies, the annual premium cannot be exactly foretold and the real cost varies according to the number of assessments. To determine the annual cost of insurance protection in these societies the assessment as given below should be multiplied by the number of assessments as given in their last reports for 1904. In a few of these societies the rates are uniform at all ages, in others the rates are level from the age of entry and in others the rates increase to a stated age and then become level. Some have reserves and some have not. All that can be done in a general statistical compilation is to give the rates per \$1,000 for 1904 with the death rates of several of the largest.

	No. of Assessment	Age				Death rate per 1,000
		21	30	40	50	
1. Royal Arcanum....	12	\$.59	\$.81	\$1.20	\$1.90	10.41
2. A. O. U. W.	12	.65	.90	1.25	2.00	7.00
3. Foresters.. of Toronto.	12	.82	1.14	1.68	1.90	7.40
4. Maccabees Port Huron.....	12	.95	1.20	1.75	2.75	7.02
5. Modern Woodmen Rock Island.....	8	.50	.65	.90	At 45 \$1.00	5.65
6. Woodmen of the World, Omaha....	12	.80	1.00	1.25	2.20	7.55
7. Ladies of Maccabees	10	.95	1.20	1.75	2.70	6.63

For cost of the years' insurance, multiply the rate by the number of assessments.

The maximum amount of insurance in one of these fraternal societies is usually two or three thousand dollars. The minimum is small. The age limits at entry are usually 18 to 50 or 55. It is difficult to make a mathematical comparison between these fraternal societies as their rates are often re-adjusted and the number of assessments varying from year to year necessarily varies the insurance cost.

COST OF MANAGEMENT IN 1904.

Column 1 is total premium receipts in 1904.

Column 2 is all expenses of management excluding taxes in 1904.

Column 3 is the percentage of cost of management to premium receipts in 1904.

Column 4 is all payments to policyholders in 1904 including dividends

	Premiums	Expenses	Percent	Payments
Aetna.....	\$9,470,000	\$1,757,000	18%	\$5,688,000
American Central.....	566,000	188,000	33	78,000
American Life.....	84,000	48,000	56	13,000
Bankers of Nebraska.....	475,000	175,000	37	64,000
Baltimore Life.....	563,000	277,000	46	247,000
Bankers' Life of N. Y.....	784,000	273,000	33	356,000
Bankers' Reserve.....	326,000	144,000	40	52,000
Berkshire.....	2,425,000	439,000	18	1,542,000
Boston Mutual.....	218,000	172,000	78	89,000
Central Life.....	213,000	101,000	47	33,000
Citizen's Life.....	25,000	23,000	92	10,000
Columbian National.....	771,000	372,000	48	80,000
Connecticut General.....	914,000	238,000	26	480,000
Conn. Mutual.....	5,441,000	1,001,000	18	7,235,000
Conservative Life.....	996,000	567,000	58	241,000
Des Moines.....	754,000	271,000	36	244,000
Equitable N. Y.....	62,643,000	13,773,000	22	36,389,000
Equitable Iowa.....	904,000	217,000	24	311,000
Federal Life.....	196,000	150,000	77	134,000
Fidelity Mutual.....	3,503,000	1,202,000	37	1,277,000
Franklin Life.....	1,041,000	397,000	37	343,000
Germania.....	4,478,000	1,233,000	27	3,026,000
German Mutual.....	43,000	16,000	35	50,000
Hartford Life.....	2,389,000	446,000	18	1,797,000
Home N. Y.....	3,015,000	838,000	27	1,601,000
Illinois.....	1,300,000	560,000	43	829,000
Inter State.....	677,000	209,000	30	238,000
Kansas City Life.....	157,000	95,000	60	32,000
Liberal Life.....	74,000	17,000	23	13,000
Life of Va.....	1,680,000	782,000	46	551,000
Manhattan.....	2,559,000	941,000	36	1,844,000
Maryland.....	277,000	72,000	26	210,000
Mass. Mutual.....	6,494,000	1,228,000	18	3,615,000
Michigan Mutual.....	1,513,000	477,000	31	885,000
Minnesota Mutual.....	672,000	300,000	44	321,000
Missouri State.....	308,000	169,000	30	93,000
Mutual Benefit.....	13,702,000	2,270,000	16	9,854,000
Mutual Baltimore.....	207,000	86,000	41	95,000
Mutual N. Y.....	62,932,000	15,517,000	24	34,484,000
Mut. Reserve.....	4,480,000	1,555,000	34	3,128,000
National of U. S. A.....	1,690,000	747,000	44	495,000
National Vt.....	5,494,000	1,347,000	24	2,246,000
New Eng. Mutual.....	5,339,000	1,170,000	21	3,444,000
New York Mutual.....	80,556,000	18,328,000	23	40,288,000
Northwestern Mutual.....	28,040,000	4,414,000	16	16,690,000
Pacific Mutual.....	2,116,000	793,000	38	666,000
Penn. Mutual.....	13,318,000	2,707,000	20	6,342,000
Phoenix Mutual.....	3,205,000	725,000	22	\$1,801,000
Presbyterian Min. Fund....	363,000	32,000	8	168,000
Provident L. & T.....	6,713,000	1,116,000	16	4,559,000

	1	2	3	4
Provident Sav.....	3,659,000	1,487,000	41	1,898,000
Register.....	142,000	50,000	35	55,000
Reserve Loan.....	823,000	189,000	23	187,000
Royal Union.....	519,000	222,000	42	150,000
Security Mutual, Neb.....	138,000	68,000	50	15,000
" " N. Y.....	1,452,000	709,000	48	486,000
Security Trust & L.....	963,000	480,000	49	445,000
South Atlantic.....	90,000	57,000	63	17,000
Southwestern.....	112,000	89,000	80	9,000
State Life.....	2,046,000	882,000	43	496,000
State Mutual.....	4,078,000	820,000	20	2,102,000
Travelers.....	4,840,000	1,016,000	21	2,481,000
Union Central.....	7,464,000	1,638,000	21	3,250,000
Union Mutual.....	2,154,000	672,000	31	1,085,000
United States.....	1,411,000	477,000	34	1,266,000
Washington.....	2,733,000	1,032,000	38	2,412,000
Western & Southern.....	1,249,000	636,000	51	363,000
Wisconsin Life.....	96,000	57,000	60	28,000

The cost of management is necessarily taken from the company's official report. The fact may be in some cases higher, but never lower.

This is a startling table in its great number of companies where the management expenses, exclusive of taxes, exceed all payments of whatsoever nature to the policyholders. Compare columns 2 and 4 for the percentage of cost of management to the payments to policyholders.

The caution is repeated of the lack of reliance to be placed on the recent reports of the three largest companies. With new officials their reports may be more truthful.

DIVIDEND TABLE.

This table should of course be taken in connection with the premium rates actually charged by the respective companies, which vary somewhat. Deducting the dividend from the premium gives the actual net cost for purposes of comparison.

Column 1 is percentage of dividends to premium receipts for the year 1904.

Column 2 is the percentage of all dividends paid to all premiums received since the organization of the company.

Column 3 is the percentage of surplus which accrued in 1904 in excess of dividends.

Column 4 is the total surplus accrued since organization in excess of all dividends paid since organization.

Columns 1 and 3 together show the total percentage of all "earnings and savings" for 1904 to all premium receipts for 1904.

Columns 2 and 4 together show the total percentage of all "earnings and savings" since organization to all premium receipts since organization.

The number of dollars dividends paid in 1904 appear in the gain and loss exhibit.

The number of dollars of premium receipts in 1904 appear in the cost of management table.

This table gives only the percentages to premium receipts of dividends paid and of surplus not distributed.

"Earnings and Savings" is the technical insurance term for the excess of actual cost over premium charges.

		2	3	4
Connecticut Mutual.....✓	21.72	28.44	3.71	2.66
Northwestern Mutual.....✓	19.51	15.70	5.52	10.38
Massachusetts Mutual.....✓	15.55	14.67	10.05	4.17
Mutual Benefit.....✓	14.33	23.75	4.49	2.85
Berkshire.....	14.03	14.60	8.13	2.56
State Mutual.....	13.57	14.24	9.02	5.37
Provident L. and T. Phil.....✓	13.15	13.57	24.31	7.58
New England.....	11.84	18.07	8.86	3.47
Equitable D. M.....	10.35	10.35	2.37	6.84
United States.....	10.07	7.43	2.86	.46
Equitable N. Y.....	9.97	9.40	11.20	9.39
Phoenix Mutual.....	8.74	18.53	3.71	1.26
Home.....	8.33	13.35	.25	2.23
Union Central.....	7.44	4.95	13.86	9.42
Pacific Mutual.....	7.43	8.05	1.30	1.78
New York.....	7.40	9.35	.53	5.63
Aetna.....	7.35	13.94	8.42	3.95
Penn. Mutual.....	7.09	13.73	11.74	6.16
Germania.....	5.84	8.00	5.35	5.55
Union Mutual.....	5.01	10.17	3.22	1.26
Manhattan.....	4.95	11.48	4.10	2.63
Connecticut Gen'l.....	4.79	6.20	4.91	3.96
Mutual.....	4.60	11.14	21.01	7.38
National of Vt.....	3.84	5.67	10.44	5.75
Washington.....	3.26	9.98	-11.32	.13
Michigan Mutual.....	2.03	5.72	.14	.88

GAIN AND LOSS EXHIBIT

This is the summary of the financial and business management of the Old Line Companies which the Minnesota and Wisconsin insurance departments require. In a separate table the percentages are given of the actual net mortality to the mortality of the American Experience table. The percentage of expenses of management to premium receipts is also given in a separate table.

As is more fully explained in the chapter on cost of insurance every premium is necessarily higher than the actual cost in order to allow a margin for safety. In all dividend policies this excess charge should be returned with interest to the policyholder. In all non-participating policies the policyholder waives his right to any return of excess charge in consideration of a lower premium. Theoretically the dividend policy should be the cheaper in the end and in the most economically managed annual dividend companies it frequently is cheapest in the long run, but in the deferred dividend policies the holder has failed as a rule to get back his excess payments with interest and would have been better off had he taken the non-participating policy with a lower initial charge.

The following table gives the items of gain and loss and also the sum paid in dividends. In almost all cases the expenses of management exceeded the expense loading, and in case of this and other losses the amount is prefixed with a minus sign.

These statements may not be wholly accurate especially in the case of the three largest New York Companies, but they were compiled by their officers, sworn to by them and any variation from the fact is not likely to be to the disadvantage of the company. As some companies do not furnish a gain and loss exhibit this table is incomplete, but it includes almost all the best known companies except the Industrials.

1. Expenses. (Difference between loading and expenses of management)
2. Mortality. (Difference between the Experience Table and the actual mortality.)
3. Surrenders and Lapses. (Difference between the real value and the amount paid the policyholder) who surrendered their policies.
4. Excess Interest. (Difference between the reserve rate and the investment return)
5. Total Gains, being the sum of excess charges over actual cost of insurance.
6. Repaid to Policyholders in Dividends.

	1	2	3	4	5	6
Aetna.....	-\$ 183,000	\$ 830,000	\$ 206,000	\$ 482,000	\$ 1,335,000	\$ 724,000
Canada.....	-307,000	281,000	84,000	322,000	380,000	68,000
Central.....	-15,000	31,000	1,000	8,000	23,000	104
Chicago.....	-70,000	24,000	5,000	6,000	-42,000	
Columbian.....	-151,000	58,000	182,000	9,000	115,000	22,000
Conn. Gen.....	-107,000	108,000	28,000	44,000	75,000	41,000
Conn. Mut.....	185,000	249,000	79,000	268,000	784,000	1,161,000
Conservative.....	-138,000	122,000	36,000	29,000	37,000	1,500
Des Moines.....	6,000	141,000	31,000	9,000	187,000	208
Equitable, N. Y.	1,465,000	3,204,000	1,175,000	3,174,000	9,020,000	6,086,000
Equitable Iowa.	8,000	55,000	19,000	67,000	150,000	94,000
Federal.....	-15,000	37,000	-6,000	19,000	26,000	4,000
Fidelity Mut.....		448,000	26,000	42,000	515,000	47,000
Germania.....	-147,000	251,000	185,000	231,000	521,000	250,000
Hartford.....	-35,000	24,000	61,000	76,000	127,000	51,000
Home.....	-137,000	151,000	180,000	83,000	278,000	249,000
Inter State.....	16,000	50,000	3,000	6,000	66,000	238,000
Manhattan.....	-235,000	210,000	118,000	187,000	273,000	125,000
Mass. Mut.....	400,000	556,000	124,000	186,000	1,266,000	1,009,000
Mich. Mutual.....	-100,000	95,000	17,000	43,000	48,000	31,000
Minn. Mutual.....	-90,000	63,000	14,000	15,000	2,000	25,000
Mutual Benefit.....	388,000	966,000	217,000	624,000	2,197,000	1,931,000
Mutual, N. Y.....	-1,305,000	2,938,000	2,188,000	2,803,000	6,624,000	2,674,000
Nat'l. U. S. A.....	-238,000	75,000	37,000	95,000	-24,000	1,724
National Vt.....	-240,000	637,000	142,000	136,000	676,000	195,000
New Eng. Mut.....	70,000	571,000	101,000	146,000	890,000	579,000
N. Y. Life.....	41,000	3,481,000	1,892,000	2,741,000	8,157,000	5,998,000
Nrthwstn. Mut.....	1,085,000	2,343,000	435,000	2,449,000	6,313,000	5,463,000
Pacific Mutual.....	-94,000	238,000	12,000	59,000	215,000	156,000
Penn Mutual.....	342,000	1,142,000	267,000	293,000	2,045,000	1,506,000
Phoenix Mutual.....	-171,000	239,000	104,000	166,000	339,000	283,000
Prov'dt. L. & T.....	-12,000	832,000	96,000	809,000	1,695,000	874,000
Prov'dt Savings.....	-263,000	21,000		357,000	116,000	174,000
State Life.....	-104,000	150,000	25,000	85,000	107,000	65,000
State Mutual.....	113,000	428,000	73,000	112,000	728,000	552,000
Travelers.....	-531,000	199,000	399,000	261,000	318,000	936
Union Central.....	-181,000	706,000	115,000	947,000	1,587,000	554,000
Union Mutual.....	-196,000	187,000	80,000	56,000	40,000	107,000
U. S. Life.....	-68,000	-4,000	127,000	37,000	91,000	140,000
Wash'ton Life.....	-291,000	97,000	198,000	-17,000	-12,000	89,000
Wisc'n'sin Life.....	-4,000	1,000	202	3,000	649	000

Some seeming discrepancies between column five in this table and column 3 in the dividend table are caused by fluctuations in the market value of the securities held as assets.

APPLICATION BLANK

(1)

Policy Form..... PART I. No.....
APPLICATION TO THE...LIFE INSURANCE COMPANY, OF...

1. PART 1 OF APPLICATION OF....(Name in full)....FOR LIFE INSURANCE..
Residence....County of....State of....P. O. Address.....
2. FULL NAME of the person for whose benefit the insurance is desired....
..... Relationship to yourself.....
3. OCCUPATION OR EMPLOYMENT. (If more than one, state all).....
4. PLACE AND DATE OF YOUR BIRTH?....|Day....|Month....|Year....
5. HAVE YOU EVER APPLIED FOR INSURANCE IN THIS COMPANY? If so,
what is the number and amount of each policy issued?.....
6. Is YOUR LIFE NOW INSURED IN ANY OTHER COMPANY? If so, in what
companies and for what amount? Only.....
7. HAVE YOU EVER applied to any company or society for insurance, with-
out receiving a policy of the exact kind and amount applied for?.....
8. Is ANY NEGOTIATION FOR OTHER INSURANCE now pending or contem-
plated?
9. POLICY—Amount, \$....Kind....How Payable—Annualy, Semi-Annu-
ally or Quarterly.....
10. HAVE YOU PAID the Agent taking this application the premium on the
same?.....

I DO HEREBY DECLARE AND AGREE that all statements and an-
swers contained in this application marked Part 1, and in the supplement
hereto marked Part 2, are hereby warranted to be true, and such statements
and answers and all agreements herein contained are offered to said The...
Life Insurance Company as a consideration for the policy applied for and
to be construed therewith as parts thereof; and that no other statements,
representations or information made or given by or to the person soliciting
or taking this application for insurance, or by or to any other person, shall
be binding on the said company unless the same be reduced to writing and
made a part of this appl cation.

AND I DO FURTHER AGREE that if the amount of the premium on
the insurance herein applied for is not paid when this application is made
no contract of insurance shall be deemed made and no liability on the part
of said company shall arise until a policy shall be issued and delivered to
me, nor until the first premium thereon shall be actually paid while I am in
good health: but that if the amount of said premium is paid at the time of
making this application, the receipt for advance payment of premium given
me, if on the form now attached hereto, shall determine the conditions upon
which and the time when the insurance applied for shall take effect.

AND I DO FURTHER AGREE that if within two years from the date
of said policy I shall pass south of the Tropic of Cancer, or be personally en-
gaged in blasting, mining or sub-marine operations, or in the production of
highly inflammable or explosive substances, or in electrical employment
where the voltage is over 600, or in switching or coupling or uncoupling cars,
or be employed in any capacity on the trains of a railroad, except as passen-
ger or sleeping car conductor, mail agent, express messenger or baggage-
master, or in ocean navigation, or shall enter or be engaged in any military
or naval service (except in time of peace), without the written consent of
said company, or shall within one year from the date of said policy, whether
sane or insane, die by my own hand, then, and in every such case any policy
issued on this application shall be null and void.

Name in full of the Beneficiary (*may be signed by applicant*).....
Per(Initials of Applicant)..... Signature in full of the
person applying for insurance on his life.....
Dated at (Actual date of signature to application.).....this..
day of.....190..

If the premium is paid in advance this receipt must be completed and given to the applicant; IF THE PREMIUM IS NOT PAID THE RECEIPT MUST NOT BE DETACHED.
 No other form of receipt for advance payment of premium will be recognized by the Company.

An application for a \$.....
 Policy having been made by.....to
 THE.....LIFE INSURANCE COMPANY,
 there has been collected of him.....DOLLARS
 to be considered the first (Annual, Semi-Annual or Quarterly).....
 premium on said Policy, provided the application is approved by the Com-
 pany, at its Home Office, and in that event, the insurance as applied for
 will be in force from the date of the Medical Examination. If the appli-
 cation is not so approved, the sum collected will be returned.
190.....Agent.
 E R C DO NOT WRITE ABOVE THIS LINE.

AGENTS CERTIFICATE.

Insurable Age....Premium \$..... Name(of Applicant).....
 Kind of Policy..... Amount of Policy \$.....
 1. How long and how intimately have you known applicant?
 2. Are you satisfied after thorough personal investigation, that he is
 and has been of temperate habits?
 3. What amount of other insurance is contemplated? \$.....
 4. About what is his annual income? \$.....
 NOTE—If you have no knowledge so state.
 5. By whom was this insurance suggested?
 6. I hereby certify that I hereby personally solicited and secured the
 application of the above named applicant and know he is the person de-
 scribed in Parts I, II and III of this application. I know nothing affecting
 the risk which is not fully set forth in these papers, and I do unqualifiedly
 recommend the acceptance of the risk by the Company.

 Soliciting Agent.

 Agent.

 General Agent

MEDICAL EXAMINATION.

PART II. DECLARATIONS MADE TO THE MEDICAL EXAMINER OF THE.....
 LIFE INSURANCE Co.

N. B.—Answers to the following questions must be elicited and recorded
 by a regularly appointed Examiner of the Company, with no one present
 but the Applicant and Examiner.
 1. A. PART II OF APPLICATION OF.....FOR LIFE INSURANCE
 which forms part of the accompanying application signed by the
 undersigned applicant and marked Part I. Said application is to
 be hereto annexed.
 B. RACE (white or black?) C. Age last birthday? D. Are
 you married, single or a widower?
 2. A. WHERE DO YOU RESIDE winter and summer?
 B. Where have you resided during the past ten years?
 C. Have you ever changed your residence or tried a change of climate
 on account of your health, or been advised to do so by a physician?
 If so, give particulars.

- d. Do you contemplate, for any reason, either a temporary or permanent change of residence, or a trip beyond the limits of the temperate zone? If so give particulars.
3. A. HOW MUCH INSURANCE ARE YOU APPLYING FOR in this application?
 - B. Has any proposal or application to insure your life ever been made to any Company, Society, association or Agent upon which a policy has not been issued as applied for?
 - C. Has any physician ever given an opinion that you were not safely insurable?
 - D. When and for what Company were you last examined for life insurance?
4. A. WHAT IS YOUR PRESENT OCCUPATION and how long have you been so engaged?
 - B. Have you any other occupation or business?
 - C. What have been your occupations during the past ten years?
 - D. Do you contemplate a change in occupation? *If so what?*
 - E. Are you now, or have you ever been engaged, either directly or indirectly in the sale or manufacture of malt or other spirituous beverages?
5. A. TO WHAT EXTENT, if any, has your weight increased or diminished during the past year, and from what cause?
 - B. If heavy or light weight, state whether this is a family or individual characteristic.
 - C. Which parent do you resemble physically?
6. A. IF YOU USE wine, spirits, malt liquors or other alcoholic beverages, state kind used and how much in any one day at the most. See Note 1.
 - B. How frequently do you use the amount stated?
 - C. If you use any of them daily, weekly or monthly, state kind and average for the past two years.
 - D. Have you used any of them to the extent of intoxication during the past ten years?
 - E. Have you ever taken treatment for alcoholic or drug habit?
 - F. If a total abstainer, how long have you been so?
 - G. In what form and to what extent do you use tobacco?
 - H. Do you now or have you ever used opium, chloral, cocaine or any other narcotic drug?
7. SEE NOTE II.

FATHER. Age if living....State of health....Age if dead....Specific cause of death....Duration and character of fatal illness....Previous health....

MOTHER. Age if living....State of health....Age if dead....Specific cause of death....Duration and character of fatal illness....Previous health....

BROTHERS. No. living..No. dead.. Age if living....State of health....Age if dead....Specific cause of death....Duration and character of fatal illness....Previous health....

SISTERS. No. living..No. dead.. Age if living....State of health....Age if dead....Specific cause of death....Duration and character of fatal illness....Previous health....

FATHER'S FATHER. Age if living....State of health....Age if dead....Specific cause of death....Duration and character of fatal illness....Previous health....

FATHER'S MOTHER. Age if living....State of health....Age if dead....Specific cause of death....Duration and character of fatal illness....Previous health....

MOTHER'S FATHER. Age if living....State of health....Age if dead....Specific cause of death....Duration and character of fatal illness....Previous health....

MOTHER'S MOTHER. Age if living....State of health....Age if dead....Specific cause of death....Duration and character of fatal illness....Previous health....
8. HAVE EITHER OF YOUR PARENTS, or any of your uncles, aunts, brothers or sisters been afflicted with Consumption?—or Scrofula, Cancer, Insanity, Epilepsy, Gout, Diabetes or Rheumatism?

9. ARE YOU BROUGHT IN CLOSE CONTACT with a consumptive? See note III.
10. A. WHEN WERE YOU LAST CONFINED to the house by illness? What was its nature?
 B. When did you last consult a physician, and for what?
 C. Have you fully recovered, and are you now in good health?
 D. Give name and address of the physician who attended you.
 E. Give name and address of your usual medical attendant.
 F. Are you willing your physician be consulted respecting your health?
11. Give in detail all illnesses, diseases or accidents you have had during past ten years not mentioned above.
 Illness, disease or accident....Date....Duration....Severity....
 Results....Name of Medical attendant....
12. HAVE YOU HAD SINCE CHILDHOOD any of the following diseases or disorders? See question 10—opposite page.
 Malarial or other Fevers, Smallpox or Varioloid, Apoplexy or Paralysis, Mental Derangement or any Nervous Disease, Headaches, severe, protracted or frequent, Indigestion, Appendicitis or any Disease of Stomach or Bowels, Persistent or frequent Cough or Hoarseness, Spitting or raising of blood, Asthma or shortness of breath, Pleurisy, Bronchitis, Pneumonia or any Chest or Lung Disease, Vertigo, Dizziness or Unconsciousness, Fits, Epilepsy, Delirium Tremens or Convulsions of any kind, Impairment of Eyesight or Hearing, Discharge from Ear or any other Chronic Discharges, Piles, Fistula or any other Disease of the Rectum, Chronic or Frequent Diarrhea or Dysentery, Affection of the Liver or Spleen, Jaundice or Dropsy, Hepatic or Renal Colic or Calculus, Gravel, Bladder or Kidney Disease, Painful, frequent or difficult Urination, Sunstroke or Fainting Spells, Palpitation or any Disease of the Heart, Enlarged Veins, Cancer, Tumors, or Ulcers of any kind, Hydrocele or any disease of the Testicles or Prostate gland, Neuralgia or Sciatica, Skin Disease, Gout or Scrofula, Syphilis or Stricture?
- State how frequently, the date, character and duration of each, and its effect upon your health?
 Of the above named diseases or disorders
 I have had NONE EXCEPT.....
13. A. ARE YOU OPPOSED TO VACCINATION? B. *If so and you have not had Smallpox or Varioloid, Will you accept a policy containing the Smallpox clause? See copy in rate IV.*
14. A. ARE YOU RUPTURED? B. *If so do you wear a truss constantly except when in bed?*
15. A. HAVE YOU EVER HAD INFLAMMATORY or Articular Rheumatism?
 B. *If so, state the number of attacks.* C. *The duration of each attack.*
 D. *In what years, and parts affected.*
16. HAVE YOU EVER APPLIED FOR A PENSION? *If so, what was the disability?*
17. HAVE YOU UNDERGONE ANY SURGICAL OPERATION, or ever had disease of bones, of joints, spinal curvature, or any bodily malformation?
18. HAS A PHYSICIAN AT ANY TIME expressed an opinion that your urine contained either sugar, albumen or casts?
19. HAVE YOU HAD SINCE CHILDHOOD any chronic or constitutional disease or severe injury not fully set forth above?
- Signed by applicant in my presence.
 M. D.
 Medical Examiner.

I certify that my answers to the foregoing questions and statements are correctly recorded,

.....
 Signature of Applicant.
 (Signed in presence of Medical Examiner.)

SPECIAL REPORT OF EXAMINER.

- N. B.—This examination must not be made by a relative of the applicant or agent, nor any one pecuniarily interested in the policy.
1. A. STATE THE RATE and quality of the pulse. (*Count at least one minute. If over 88 or below 60, examine at another time, and report the result of each examination.*)
 - B. IS THE PULSE intermittent, irregular, or does it reveal undue strength or weakness of heart's action?
 - C. IS THERE ANY EVIDENCE of atheroma, aneurysm or varicose veins? (*In examining chest always remove outer clothing and starched shirt.*)
 - D. ARE THE HEART SOUNDS perfectly normal? (*The heart should be examined both in the recumbent and erect positions, with the stethoscope over bared skin.*)
 - E. IS THERE ANY INDICATION of hypertrophy of the heart? Do you find the apex beat outside of normal area?
 2. A. IS THE CHEST WELL FORMED and is the expansion at the apex of each lung good?
 - B. DOES AUSCULTATION AND PERCUSSION of the chest reveal any abnormal condition in either lung—any rales, evidence of former pleurisy, emphysema, asthma, or indication of previous disease?
 3. STATE MEASUREMENT OF CHEST (bared) on line of nipples: A. Full inspiration. B. Expiration.
 4. HAVE YOU CAREFULLY examined the abdomen and do you find the abdominal organs of normal size, free from tenderness and in a healthy condition?
 5. A. HAS HE HERNIA? If so, state kind.
 - B. HAVE YOU EXAMINED IT, and do you find that a suitable truss is worn?
 6. A. DO YOU FIND A SCAR of successful vaccination? B. State location.
 7. A. WAS THE URINE EXAMINED VOIDED by the applicant in your presence?
 - B. DOES APPLICANT rise at night to urinate?
 8. A. ACTUAL WEIGHT in ordinary clothing, without overcoat. (*If Height approximates maximum or minimum, the examiner must weigh the applicant.*)
 - B. HEIGHT IN SHOES. (*Each applicant must be measured at time of examination.*)
 - C. GIRTH AT UMBILICUS, without contraction of abdomen. (*Be particular to record normal measurement.*)
 9. ANY SUSPICION, past or present, of enlarged prostate, stricture, gonorrhoea or syphilis? (*If applicant objects for confidential reasons to having this application pass through the hands of the agent, mail with your voucher direct to the medical department.*)
 10. DID YOU READ EACH QUESTION in 12, Part II and elicit explicit answers from applicant to each, and are you satisfied their meaning was fully understood by him?
 11. JUDGING FROM HIS APPEARANCE and statements and your knowledge of his health record, are you satisfied he uniformly enjoys good health?
 12. DOES HE APPEAR OLDER THAN the age stated?
 13. ANY NEED OF STATEMENT from applicant's medical adviser? (*If so, and you find it impracticable for you to secure same, require applicant or agent to do so.*)
A telephonic communication recorded by Examiner under "Additional remarks" would be acceptable.
 14. ARE YOU IN ANY WAY RELATED to the applicant or agent?
 15. HAVE YOU ANY PERSONAL KNOWLEDGE of the habits, past and present, and the general standing of the applicant?
 16. HAVE YOU ANY REASON TO SUSPECT unacknowledged over-indulgence in the use of stimulants, or the use of narcotics, now or in the past?
 17. HOW LONG HAVE YOU KNOWN the applicant and how intimately?
 18. WHERE WAS THIS EXAMINATION MADE? At the applicant's place of business, residence or the examiner's office? *When examining applicant insist on noiseless surroundings.*
 19. AT THE TIME YOU ELICITED and recorded the foregoing declarations and during the examination, was there anyone present other than the applicant and yourself?

20. CAN YOU DISCOVER anything unfavorable in his manner of living, physical condition, personal or family history, not already mentioned?
21. ARE YOU SATISFIED applicant would seek medical advice in case of illness?
22. DO YOU UNQUALIFIEDLY recommend the acceptance of this risk for a life policy? (Answer "I do" or "I do not") See Note VII. *See voucher below.

I certify that the above is a record of a careful examination of the person described in and whose signature is affixed to the foregoing declarations, and that the examination was made this....day of....190....

Examined at, Town.....County.....State....(Medical Examiner)....
M. D.

N. B.—If not a regularly appointed Examiner of the Company, fill the following blank. (P. O. Address of Medical Examiner)....

Where graduated.....Date of Graduation....

Reference.....M. D. P. O. Address.....

Reference.....M. D. P. O. Address.....

ADDITIONAL REMARKS—State anything discovered by you which may influence the character of the risk, and which is not set forth fully in the foregoing answers.

THESE INSTRUCTIONS ARE IMPERATIVE AND MUST NOT BE DEVIATED FROM IN ANY MANNER.

NOTE 1. The answer to question 6 must be definite and convey a clear idea as to the past and present habits of the applicant in the use of stimulants. Such answers as "moderately," "temperately," or "not to excess" and the like, will not be accepted.

If there is a history of over-indulgence or a free use of stimulants, a full explanation will be required over the signature of the applicant.

NOTE II. In giving the cause of death elicit the specific disease; such terms as "exposure," "effects of cold," "general debility," "child-birth," "change of life," "liver complaint," "fever," "intemperance," etc., will not be accepted by the Company without an explanation.

In all cases of uncertain cause of death the report should, if possible, state explicitly that phthisis was or was not an element of the fatal illness.

NOTE III. If a member of applicant's family has tuberculosis, or he is associated closely at his place of business with persons suffering from tuberculosis, see that the application contains full particulars as to relationship and as to precautions to prevent infection.

NOTE IV. SMALLPOX CLAUSE. "The insured under this policy having stated he is opposed to vaccination and that he has not had smallpox or varioloid, it is hereby stipulated and agreed that should his death be caused by, or in consequence of small pox or varioloid the Company will be liable only for the reserve then held for the policy; PROVIDED, however, that if the Company shall receive at its home office during the life time of the insured, evidence satisfactory to the Company that since the date of this policy the insured has been vaccinated or is no longer opposed to vaccination, or has had smallpox or varioloid, and has fully recovered it will thereupon assume the full risk of death from smallpox or varioloid: it being, however, further stipulated and agreed that in any case all other conditions of the policy, and of the application therefor, shall have been complied with by the said insured."

NOTE V. The Examiner should exercise great care in the exploration of the thorax. In all cases insist upon the chest being bared, or at least covered only by the under-garment.

The Examiner should be thorough in his examination, no matter how well he may know the applicant, or how vigorous he may appear.

NOTE VI. The urine must invariably be voided in the presence of the Medical Examiner to enable him to know positively that the specimen examined is that of the applicant, and he must refuse to examine a specimen received in any other way. This is not only a protection to the honest applicant and policy-holder, but also to the Examiner.

The Examiner should test for sugar and albumen in every sample he examines, no matter what the specific gravity may be. If in previous examinations either has been found, if only a trace, this fact should appear on

the application. Examine the urine in every case. Heller's test for albumen and Haines' or Fehling's test for sugar preferable. See instructions 18 and 19, page 9, of the "Instructions to Medical Examiners."

NOTE VII. To be eligible for a life policy the applicant should possess good health, a good constitution and a good prospect for attaining old age. If not eligible for Life Policy and his chances are good for living a term of years, he may be insurable under an Endowment Policy which would terminate within the period of his prospective deterioration. (A LIFE POLICY where the premiums are paid within a fixed number of years, should not be confounded with an Endowment Policy.)

NOTE VIII. The answers in the declarations made to the Medical Examiner should be free from alteration, interlineation and erasure, or when unavoidable, the same must be attested by the applicant's initials. No one except the applicant has the right to change any of the answers over his signature. Likewise, corrected or changed answers in the examination must be attested by the Examiner.

NOTE IX. Whenever you postpone or do not recommend a risk, or should you give an adverse opinion on a risk, or decline to examine the applicant because of foreknowledge of his ineligibility, you are required to communicate the fact at once to the Medical Department at the Home Office.

NOTE X. If for any reason you should prefer not to state in the application certain facts disclosed by the examination, you should at once write a letter to the Medical Department, giving such facts in detail. Nothing affecting a risk should ever be withheld from the Home Office. Correspondence with respect to an applicant, if so desired, is always considered confidential.

TO BE FILLED AT HOME OFFICE

REC'D

APPROVED

L. BOOK

.....M. D.
RECONSIDERED AND APPROVED
.....M. D.
REJECTED
.....M. D.

.....LIFE INSURANCE COMPANY

TEN-YEAR RENEWABLE TERM POLICY

AMOUNT, \$10,000 ANNUAL PREMIUM \$145.00 AGE 35.

The.....Life Insurance Company, in consideration of the statements and agreements made in the application for this policy, which is hereby made part of this contract, and in further consideration of the payment of one hundred forty-five dollars, the receipt whereof is hereby acknowledged, and of the annual payment of a like sum (subject to increase after ten years as hereinafter stipulated) to the said company, at or before twelve o'clock noon on or before the thirteenth day of October in every year during the continuance of this policy, promises to pay, at its office in unto Jane Doe, beneficiary, wife of John Doe, the insured, of..... in the State of..... subject to the rights of the insured to change the beneficiary or beneficiaries as hereinafter provided, the sum of ten thousand dollars, upon receipt and approval of proofs of the fact and cause of the death of said insured while this policy is in force, if such death shall occur within the period of ten years from the date hereof, or within any succeeding period for which this policy may be renewed, the balance of the year's premium, if any, being first deducted therefrom; provided, however, that if no beneficiary shall survive the said insured, then such payment shall be made to the executors, administrators or assigns of the said insured.

At the expiration of ten years from the date thereof and at the expiration of any succeeding ten-year period, this policy, if then in force, may be renewed without medical examination for a further period of ten years; but at each such renewal the premium for the new period, payable each year thereof at the times for premium payment above specified, shall be increased to an amount corresponding to that stated in the table printed on the second page of this policy for the attained age of the insured.

This policy shall share in the surplus annually, as apportioned by the com-

pany, after two years from the date hereof, until all the contributions to the surplus found to have arisen from this policy shall have been returned; but no dividend shall be payable at or after the time of default in the payment of any premium unless the policy shall be reinstated.

This policy shall not take effect until the first premium shall have been actually paid while the insured is in good health, and is issued and accepted by the parties in interest subject to the provisions and benefits stated on the second page hereof which are hereby made a part of this contract.

In witness whereof, The Life Insurance Company, at its office in —has by its president and secretary executed this contract, this thirteenth day of October, one thousand nine hundred and five,

LEVEL PREMIUM POLICY.

STRAIGHT LIFE, NON-PARTICIPATING
AMOUNT \$10,000 PREMIUM \$18700 AGE 30

IN CONSIDERATION of the covenants and agreements made and contained in the application for this Policy (which are made a part of this contract), and of the Annual Premium of One Hundred, Eighty-seven Dollars and no cents, to be paid at the Home Office of the Company, in . . . on or before the first day of January in every year during the continuance of this contract, Does Promise, on receipt at its Home Office of satisfactory proofs of the death, during the continuance of this contract, of John Doe herein called the Insured, of New York County of New York, State of New York to PAY at its said Home Office to Mary G. Doe, wife of the said Insured if surviving, or if she shall not survive the Insured, to the executors, administrators or assigns of the Insured, Ten Thousand dollars, any indebtedness of the Insured or on behalf of the beneficiary to be first deducted therefrom, together with the unpaid portion, if any, of the premium for the current policy year.

The non-forfeiture provisions and all conditions and privileges written or printed by the Company on the following pages are hereby referred to and made a part of this contract as fully as if recited at length over the signatures hereto affixed.

IN WITNESS WHEREOF, the LIFE INSURANCE COMPANY has caused this Policy to be signed by its President and Secretary at its office in the City of the 1st day of January, A. D. one thousand nine hundred and six.

JOHN SMITH,
President

JOHN ROBINSON,
Secretary.

DEFERRED DIVIDEND POLICY.

. Life Insurance Company agrees to pay . . . Dollars to of the Insured, or to such Beneficiary as may have been designated in the manner herein provided, at the Home Office of the Company, in the City of New York, immediately upon receipt and approval of proofs of the death of John Doe, the Insured.

CHANGE OF BENEFICIARY—The insured may change the Beneficiary at any time and from time to time, provided this policy is not then assigned. The Insured may, however, declare the designation of any beneficiary to be irrevocable; during the lifetime of an Irrevocable Designated Beneficiary the Insured shall not have the right to revoke or change the designation of that Beneficiary. If any Beneficiary or Irrevocably Designated Beneficiary dies before the Insured, the interest of such Beneficiary shall vest in the Insured. Every change, designation or declaration must be made by the written notice to the Company at the Home Office, accompanied by this Policy, and will take effect only when endorsed on this Policy by the Company.

This policy participates in the Profits of the Company as herein provided:

The Accumulation Period will end twenty years after the date specified on the third page as the date on which the Policy takes effect. If the Insured is living at the end of the Accumulation Period, and if the premiums have been duly paid, and not otherwise, the Company will apportion to this Policy its share of the Accumulated Profits and the Insured shall then have the option of one of the following

Six Accumulation benefits.

1. Receive the Profits in cash, and continue this Policy on further payment of premiums; or
2. Receive the Profits, converted into an Annual Income for Life, and continue this Policy by the payment of the same; or
3. Receive the Profits, converted into Additional Non-participating Paid-up Insurance, subject to evidence of insurability satisfactory to the Company and continue this Policy by payment of premiums; or
4. Receive the Entire cash Value, as stated below, converted into an Annual Income for Life, and discontinue this Policy; or
5. Receive the Entire Cash Value, as stated below, in cash and discontinue this Policy.
6. Receive the entire cash value converted and paid up Insurance payable at death and discontinue this policy.

This Policy is in the Standard Accumulation Class, and the mortality experience of the Company among persons insured in that class will be used in determining its share of the Profits.

THE COMPANY WILL SEND TO THE INSURED, before the end of the accumulation period, a written statement of the results under the five Accumulation Benefits. If the Company does not receive from the Insured a written selection of one of these Benefits before the end of the Accumulation Period, or within three months thereafter, it is agreed that the Profits then apportioned to this Policy shall be converted into an Annual Income for Life, as provided in the Second Benefit.

The Company guarantees that the Entire Cash Value of this Policy at the end of the Accumulation Period shall be Dollars, in Cash, and this Policy's share of the Accumulated Profits then apportioned, also in Cash.

ORDINARY ENDOWMENT.

 AMOUNT, \$10,000 TWENTY-YEAR-ENDOWMENT ANNUAL PREMIUM, \$521 AGE, 35
 Life Insurance Company of hereby agrees to pay ten thousand dollars to Mary Doe (wife of the insured), if living, if not living, to the insured's executors, administrators or assigns, or to such other beneficiary as may be designated by the insured, as hereinafter provided, at the home office of the company in the city of ---, upon receipt and approval of proofs of the fact and cause of death of John Doe, the insured hereunder, provided such death shall occur within one year from the date hereof, or thereafter, if the insurance shall have been continued by the payment of premiums as hereinafter provided.

The company further promises to pay ten thousand dollars at its home office to the said insured or the legal holder thereof, on the first day of June, nineteen hundred and twenty-six, if the insured be living on that date, and this policy shall thereupon cease and determine.

Dated June 1, 1906.

TWENTY-YEAR ENDOWMENT 5 PER CENT 20-YEAR GOLD BOND.

AMOUNT, \$10,000 ANNUAL PREMIUM, \$682.20 AGE, 35
 Contract of sale between the Life Insurance Company of the United States and Richard Roe. Twenty-year 5 per cent gold bond.

Amount, \$10,000
 Whereas, Richard Roe (hereinafter called the purchaser) has subscribed to the Life Insurance Company for the 5 per cent gold bond hereinafter described;

Now, therefore, in consideration of the written and printed subscription for said bond, hereby made a part of this contract (a copy of which is hereto attached) and of the payment in advance of six hundred and eighty-two

dollars, and of the payment of six hundred and eighty two dollars on or before the fifteenth day of January in every year thereafter during the continuance of this contract, the said company hereby agrees that on the fifteenth day of January, nineteen hundred and twenty-four, upon the surrender of this contract (provided it is then in force) it will deliver at its office a twenty-year 5 per cent registered gold bond for ten thousand dollars or a coupon bond for each even one thousand dollars of the said amount in the form of the specimen bond hereto attached, to Richard Roe or assigns, upon which delivery this contract will terminate.

And it is further agreed, that the privileges and conditions stated on the second and seventh pages hereof form a part of this contract as fully as if recited at length over the signature hereto affixed.

New York, January 15th, 1904.

NOTE

The preceding forms are the large type only of the policy. The small type contains the conditions and appendages. These vary in every company, no two companies so far as appears, having uniform conditions and forms. There are also promises of many benefits though it should be understood that no policyholder can get more than one of them.

If he has an investment policy and realizes on his investment his life insurance ceases. If he takes the endowment his life insurance stops when the endowment is paid to him. If he takes a cash loan he runs the great risk of being forced to take the surrender value and pay his loan and lose his policy.

The only two of these alternatives which are of any real value in giving life insurance protection and which should have any place in the standard life insurance policy, are those which automatically give the holder of a level premium policy his term insurance or a paid up life insurance for the excess which he has already paid. Nine policies out of ten would end better if they had stricken out all clauses about a new beneficiary or cash loans or a surrender value and retained only the provision that on the inability or failure to

pay the premiums when due the policyholder should have the option of term or paid up insurance and that should this option not be exercised the policy should become automatically paid up to an amount in proportion to its reserve value.

The following tables give the cash loans, surrender values, term insurance and paid up insurance of one of the largest companies. These provisions are different in every company but one table shows the general plan of them all. The loan and surrender value are approximately the same.

TABLES OF CASH LOANS, PAID-UP INSURANCE, AND AUTOMATIC TERM INSURANCE

I.—THE CASH LOAN AVAILABLE at any time on each \$1,000 of this Policy, in accordance with the loan provisions on the third page, is set forth in the table below, designated "Table I—Cash Loans," and is the sum found in the column under the age of the Insured, opposite the number representing the full years the Policy has been in force. To ascertain the total Cash Loan available, multiply that sum by the number of thousands of dollars, and fractions thereof, stated in the first line on the first page.

ILLUSTRATION: The cash loan available on each \$1,000 of a Policy issued at age 30, after the expiration of 8 full years, is \$106. The entire Cash Loan available, therefore, on a Policy of, say, \$2,500, would be $2\frac{1}{2}$ times \$106,—\$265.

II.—THE AMOUNT OF PAID-UP INSURANCE on each \$1,000 of this Policy, in accordance with the non-forfeiture provisions on the third page, is set forth in the table below, designated "Table II—Paid up Insurance," and is the sum found in the column under the age of the Insured, opposite the number representing the full years the Policy has been in force. To ascertain the total amount of Paid-up Insurance, multiply that sum by the number of thousands of dollars, and fractions thereof, stated in the first line on the first page.

ILLUSTRATION: The amount of Paid-up Insurance on each \$1,000 of a Policy issued at age 30, after the expiration of 8 full years, is \$200. The paid-up Insurance, therefore, on a Policy of, say, \$2,500, would be $2\frac{1}{2}$ times \$200,—\$500.

III.—THE PERIOD OF AUTOMATIC TERM INSURANCE under this Policy, in accordance with the non-forfeiture provisions on the third page, is set forth in the table below, designated "Table III—Automatic Term Insurance," and will be found in the column under the age of the insured, opposite the number representing the full years the Policy has been in force; this period, being the same for Policies of any amount, must not under any circumstances be multiplied or increased.

ILLUSTRATION: The period of Automatic Term Insurance under a Policy issued for \$2,500 at age 30, would, after the expiration of 8 full years be 7 years and 10 months.

For figures relating to this Policy, take column headed with age..... the age of the Insured.

TABLE 1—CASH LOANS

Based on a Policy of \$1,000

After Expiration of	Age 21 or under	Age 25	Age 30	Age 35	Age 40
2 Yrs.	\$18	\$21	\$27	\$33	\$42
5 "	48	56	68	83	102
10 "	94	110	134	162	196
15 "	149	173	209	251	299
20 "	212	245	293	347	404
25 "	283	325	383	445	508
30 "	362	411	476	541	605

TABLE I—CASH LOANS

Based on a Policy of \$1,000

After Expiration of	Age 45	Age 50	Age 55	Age 60
2 Yrs.	\$53	\$66	\$80	\$96
5 "	124	148	175	203
10 "	235	276	318	360
15 "	350	402	453	501
20 "	463	520	574	632
25 "	569	626	685	751
30 "	664	724	788	855

TABLE II—PAID-UP INSURANCE

Based on a Policy of \$1,000

2 Yrs.	\$32	\$34	\$38	\$42	\$47
5 "	103	113	127	141	158
10 "	211	229	254	282	310
15 "	323	349	384	420	456
20 "	425	457	497	537	575
25 "	523	557	598	638	674
30 "	612	646	686	723	756
2 Yrs.	\$52	\$57	\$62	\$67	\$72
5 "	176	193	209	224	239
10 "	339	366	391	413	433
15 "	491	522	550	575	598
20 "	610	641	668	698	724
25 "	708	735	765	802	824
30 "	784	811	844	884	914

TABLE III—AUTOMATIC TERM INSURANCE AT CORRESPONDING AGES.

	Yrs. Mos.	Yrs. Mos.	Yrs. Mos.	Yrs. Mos.	Yrs. Mos.
2 Yrs.	1 0	1 1	1 2	1 4	1 6
5 "	3 10	4 3	4 9	5 5	5 10
8 "	8 2	8 10	9 10	10 2	9 8
15 "	12 6	13 3	13 3	12 5	11 1
20 "	15 11	15 7	14 6	13 0	11 0
25 "	17 0	16 0	14 2	12 1	10 2
30 "	16 9	15 3	13 1	10 10	8 9
	Yrs. Mos.	Yrs. Mos.	Yrs. Mos.	Yrs. Mos.	Yrs. Mos.
2 Yrs.	1 6	1 4	1 2	0 11	0 11
5 "	5 8	5 1	4 4	3 5	3 5
10 "	8 7	7 3	5 11	4 7	4 7
15 "	9 5	7 8	6 1	4 9	4 9
20 "	9 1	7 3	5 5	4 3	4 3
25 "	8 1	6 4	4 9	3 2	3 2
30 "	6 11	5 2	3 6	1 11	1 11

CASH LOANS.

The Insured may obtain Cash Loans on the sole security of this Policy, on written request, at any time after it has been in force two full years, if premiums are duly paid to the anniversary of the insurance next succeeding the date when the loan may be obtained. The Insured shall pledge this Policy and its accumulations as collateral security for such loans, in accordance with the terms contained in the Company's then existing form of Policy Loan Agreement. The amount of Loan available at any time is stated on the second page, and includes loans then unpaid. Interest will be at the rate of 5% per annum payable in advance to the next anniversary, annually in advance on that date and thereafter.

THIS POLICY IS AUTOMATICALLY NON-FORFEITABLE

AS FOLLOWS

FIRST—If any premium is not paid on or before the date when due, and *if there is no indebtedness* to the Company,—

The insurance will automatically continue from such due date as Term Insurance as follows, and no longer, namely: for 37 days if premiums have been paid for 3 months; for 45 days if for 6 months; for 53 days if for 9 months; for 60 days if for one year and less than two years; and for the period specified on the second page if premiums have been paid for two or more years.

In lieu of such automatic Term Insurance, on the Insured's written request within six months from such due date but not otherwise, this Policy will be endorsed for the amount of Paid-up Insurance, if any, stated on the second page.

SECOND—If any premium or interest is not paid on or before the date when due, and *if there is an indebtedness* to the Company,—

Insurance for the net amount that would have been payable as a death-claim on said due date, will automatically continue from said due date as Term Insurance for such time as any excess of three-fourths of the reserve under this Policy over such indebtedness will purchase at the age of the Insured on said due date, according to the Company's present published table of Single Premiums for Term Insurance, and no longer.

In lieu of such automatic Term Insurance, on the Insured's written request within six months from said due date but not otherwise, this Policy will be endorsed for such amount of Paid-up Insurance, as said excess will purchase at the age of the Insured on said due date, according to the Company's present published table of Single Premiums.

The Automatic Term Insurance and the Paid-up Insurance, as specified above, shall be payable under the same conditions as this Policy, but shall be without participation in profits, cash loans or further payment of premiums.

INSTALMENT BENEFITS.

The Insured may change the mode of payment of the proceeds of this Policy as a death-claim, at any time within five years from the beginning of the insurance, if not then assigned, from payment in one sum, as provided on the first page, to payments by annual instalments, as stated below provided the amount of such proceeds is One Thousand Dollars, or more. If the amount is less than One Thousand Dollars, the proceeds will be paid in one sum only.

The following tables are based upon a Policy, the proceeds of which are One Thousand Dollars, and will apply pro rata to this Policy.

LIMITED INSTALMENTS.

Annual Instalments limited to the number stated below; any number from two to twenty-five may be selected by the Insured.

Number of Instalments	25	20	19	18	17	16	15	14	13	12
Amount of each Instalment . .	\$56	\$65	\$67	\$70	\$73	\$77	\$81	\$85	\$91	\$97
Number of Instalments	11	10	9	8	7	6	5	4	3	2
Amount of each Instalment . .	\$104	\$113	\$124	\$138	\$155	\$179	\$211	\$261	\$343	\$507

*ILLUSTRATION—The amount of each Instalment will be \$65 for each \$1,000 of proceeds, if payment is to be made by 20 Instalments.

CONTINUOUS INSTALMENTS.

Annual Instalments to continue during entire lifetime of Beneficiary, but Twenty-five annual Instalments at least to be paid.

(Payment by continuous Instalments cannot be selected if there is more than one Beneficiary under this Policy.)

Age of Beneficiary at Death of Insured	15 or under	16	17	18	19	20	21	22	23	24	25	26	27
Amount of each Instalment . .	\$40	\$40	\$40	\$40	\$40	\$41	\$41	\$41	\$41	\$41	\$42	\$42	\$42
Age of Beneficiary at Death of Insured	40	41	42	43	44	45	46	47	48	49	50	51	52
Amount of each Instalment . .	\$48	\$48	\$48	\$49	\$49	\$50	\$50	\$51	\$51	\$52	\$52	\$52	\$53
Age of Beneficiary at Death of Insured .	28	29	30	31	32	33	34	35	36	37	38	39	
Amount of each Instalment . . .	\$43	\$43	\$43	\$44	\$44	\$44	\$45	\$45	\$46	\$46	\$47	\$47	
Age of Beneficiary at Death of Insured .	53	54	55	56	57	58	59	60	61	62	63	64 or over	
Amount of each Instalment . . .	\$53	\$53	\$54	\$54	\$54	\$54	\$55	\$55	\$55	\$55	\$55	\$55	\$55

*ILLUSTRATION—The amount of each annual Instalment will be \$43 for each \$1,000 of proceeds, if at the death of the insured the Beneficiary should be 30 years of age last birthday.

The Insured, having changed the mode of payment to annual Instalments, may at any time subsequently change the number of Instalments, as may be desired, and as above illustrated, or entirely revoke any change, thereby making the proceeds of this Policy again payable in one sum.

The payment of the first Instalment shall be made immediately upon receipt and approval of proofs of the death of the Insured, and subsequent Instalments shall be paid annually thereafter.

If the Beneficiary should die before all Instalments have been duly paid, the remainder of the Instalments shall be commuted and paid in one sum to the Executors, Administrators or Assigns of the Beneficiary.

Each change of mode of payment, or revocation of any change, must be requested by the Insured in writing, and shall not take effect until endorsed on this policy by the Company at the Home Office.

The Beneficiary can neither assign nor commute unpaid Instalments, unless such right is given to the Beneficiary by the Insured in writing, and is endorsed on this Policy by the Company at the Home Office, during the lifetime of the Insured. If, however, the proceeds of this Policy or any part thereof, are payable to Executors, Administrators, or Assigns, such proceeds shall be paid in one sum.

CONCLUSION

All these forms of policy, term, straight life, deferred dividend endowment and gold bond give exactly the same insurance protection and pay exactly the same sum to the beneficiary in case of death. They differ in other respects, in loan values, in surrender values, investment features, and payments during life, but regarded solely as a life insurance benefit they are identical.

From the life insurance point of view the endowment and gold bond policies are the worst for their life insurance protection terminates automatically at the end of the endowment or investment period while the renewable or the straight life policy is in force as long as the premiums are paid. To what extent the investment policies carry out the promise of the companies which sell them, the New York investigating committee received testimony which is included among its exhibits. The results averaged hardly half the promises. It could not well be otherwise because the expense of management ate into the investment returns so that as the Vice President of one of the leading New York Companies confessed, the policies on a pure investment basis paid less than one per cent interest.

To take a few of these comparisons by companies. An Equitable 20 year endowment with an estimated cash surplus of \$1,566 paid \$712; a 20 year deferred dividend estimated \$1,176 paid \$537; a tontine endowment estimate \$1,300 paid \$619; another estimate \$590 paid \$327; another estimate \$1,176 paid \$537.

The Mutual of New York adopted the deferred

dividend system later than the Equitable and the New York Life and made smaller promises. Its returns are no better than those of the Equitable and the New York, but the discrepancy between its promises and its payments is not so great. For a 20 year endowment it estimated \$658 and paid \$424, for a 20 year deferred dividend it estimated \$560 and paid \$341. Other estimates were \$504, paid \$294; \$305, paid \$200; \$342, paid \$214.

The New York Life promised on a 20 year endowment \$1,650 and paid \$710; on a 20 year deferred dividend \$1,143 and paid \$527; on a tontine it estimated \$1,234 and paid \$564; on another \$954 and paid \$390.

As anyone reading the policy forms will note, these estimates are not part of the contract which provides that the policyholder is entitled to only what dividends or investment profits the officials of the company choose to apportion to him. The promise is made by the agent in separate printed estimates which purport to be the experience of other policyholders and which the prospective policyholder is assured will be equalled in his case. Whether or not the statements are true in regard to the returns some policyholders have received, there is no question that they do not come true in nine cases out of ten. It was even charged that certain policyholders received large dividends or results in return for giving certificates of what they received, which certificates were photographed and reproduced in fac-simile by the hundred thousand copies for distribution among the agents and for the deception of new policyholders.

It further appeared that of these investment policies less than one half remained to participate in the

investment features, the majority dying or lapsing or surrendering and receiving nothing at all in return for the higher premiums they paid.

That this evil attaches to all forms of investment policy no matter in what company issued and is not due solely to the lapses from strict integrity of individual insurance managers is proved by the comparison with the same forms of policies issued by companies with a lower expense rate and with officials whose integrity has not been attacked. These policies also show a uniform discrepancy between the estimates and the results. It is impossible that there should be anything else, because so long as solicitors receive commissions amounting to more than a year's premium it is impossible for an investment policy to make returns comparable with a savings bank. To make the competition equal a savings bank should turn over all the first year's deposits of every depositor to a soliciting agent and should in every successive year deduct from the deposits and interests anywhere from 10 to 30 per cent, for the expenses of management. If a savings bank were to do this a savings bank depositor would be lucky if he got his principal back let alone any interest. In a life insurance company the average policyholder does not get his principal back with interest and if after the exposure of the fallacy of investment policies any man buys one he deserves the treatment which he will inevitably receive.

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